Determinants of Manufacturing Outward FDI from India: Role of Host Country Factors

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Abstract

The paper looks into the determinants of manufacturing outward foreign direct investment (OFDI) from India. Based on the insights from the theory, thirteen important variables have been considered in the analysis, and a Panel Tobit Model has been estimated for a sample of 213 countries for a period of 11 years (2008-2018). The paper concludes that the significant determinants are market index, geographical distance, and import intensity of the host country in the case of Indian manufacturing OFDI. Further, the manufacturing sector multinationals from India are found to have a special attraction for investing in fuel-rich countries, and those having technological assets and skill base. Indian manufacturing multinationals (MNEs) are also favorably attracted if a host country enters into an RTA or signs a DTAA with India. Likewise, the better governance and quality of institutions of host countries is a powerful pull factor for OFDI by Indian manufacturing MNEs.

I. Introduction

THE POPULAR NOTION of internationalization is export development. But, in fact, according to the theory of the multinational enterprise (MNE), outward Foreign Direct Investment (OFDI) is the main indicator of internationalization. The interest in this study is the OFDI of developing countries that have been rising in India. A palpable pattern across the world has been developing country FDI growth. According to UNCTAD’s World Investment Report (2019), the share of developing economies in the global FDI outflows which stood at a meager 5 percent in 1990 has dramatically increased to 41 percent in 2018. If we look at the Indian case, she is currently one of the leaders among developing countries in terms of outward FDI flows. Between the 1990s and 2000s, India’s OFDI increased more than 113-

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product, population, and GDP growth rate shall act as pull factors encourage FDI flows while the distance between them shall discourage it.

3. There are a large number of studies from other countries including developed countries, which examine the factors affecting FDI by using Tobit models. For example, Lemi and Asea (2003), Gao (2005), Razin and Sadka (2007), Scliavo (2007), Danga and Dingova (2011), Aguiar, Aguier-Conraria, Gulamhussen and Magalhães (2012), Cui and Jiang (2012), Kandilo, Lèvebiciodiu and Perkova (2013), Guris, Sacjadi and Genc (2015).

4. The phrase ‘RTA(s) with India’ is used in the sense that either the host country has a bilateral trade agreement with India or the host country is a member of an RTA, which includes India (or both). Bootstrapping techniques have become increasingly popular in applied econometrics and other areas. With few assumptions, bootstrapping provides a way of estimating standard errors and other measures of statistical precision. It is a nonparametric approach for evaluating the distribution of a statistic based on random resampling. The bootstrap is an alternative method for estimating the standard errors when no formula is otherwise available or when available formulas make inappropriate assumptions. It utilizes the same theory underlying Monte Carlo simulation methods.

5. Heteroskedasticity occurs when the variance of the error terms differs across observations.

References


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Cheung, Y.W. and X.W. Qian, (2009), “The Empirics of China’s Outward Direct Investment”, Mimeo, University of California, Santa Cruz, USA


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## Annexure

### Table A1

<table>
<thead>
<tr>
<th>Variable</th>
<th>Observations</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
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<tbody>
<tr>
<td>ODFI</td>
<td>2377</td>
<td>38.541</td>
<td>256.729</td>
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<td>7931.723</td>
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<td>GDP</td>
<td>2205</td>
<td>3.66e+11</td>
<td>1.49e+12</td>
<td>2.71e+07</td>
<td>2.05e+13</td>
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<td>POP</td>
<td>2336</td>
<td>3.36e+07</td>
<td>1.32e+08</td>
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<td>1.39e+09</td>
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<td>GDPG</td>
<td>2183</td>
<td>3.109</td>
<td>5.436</td>
<td>-62.076</td>
<td>123.140</td>
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<tr>
<td>DIST</td>
<td>2189</td>
<td>784.689</td>
<td>4227.686</td>
<td>868.567</td>
<td>16916.320</td>
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<td>IMP</td>
<td>2136</td>
<td>0.037</td>
<td>0.096</td>
<td>0.000</td>
<td>2.220</td>
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<tr>
<td>FOPN</td>
<td>2109</td>
<td>362.883</td>
<td>3840.635</td>
<td>4.60e-09</td>
<td>70986.250</td>
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<tr>
<td>ORE</td>
<td>1637</td>
<td>16.514</td>
<td>26.247</td>
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<td>PAT</td>
<td>1659</td>
<td>8.628</td>
<td>14.486</td>
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<td>86.420</td>
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<td>ENRL</td>
<td>2377</td>
<td>6540.181</td>
<td>5576.720</td>
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<td>INFLA</td>
<td>2183</td>
<td>4.947</td>
<td>8.297</td>
<td>-36.565</td>
<td>95.409</td>
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<td>RTA</td>
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<td>BITIS</td>
<td>2377</td>
<td>0.291</td>
<td>0.454</td>
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<td>DTAA</td>
<td>2377</td>
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<td>0.459</td>
<td>0.000</td>
<td>1.000</td>
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<td>GOVFR</td>
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<td>0.904</td>
<td>-2.449</td>
<td>1.873</td>
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**Note:** The values for each variable are the ones before taking the natural log.

**Source:** Self Computed