

India's Outward FDI : Macro-economic Determinants of Home Country

SUKANYA. R*
SURESH. G**

Abstract

Nevertheless, a gap in the literature remains on the choice of investment destination and rationale backing the investment of Indian MNEs. The study examines the diverse home country determinants of outward FDI from low- and middle-income economies also the motive behind the investment of MNEs, which gained little attention in empirical studies. The role of home country determinants investigated for the most recent period, 1991-2019, using a panel data econometric framework. Results indicate that the home country's economic development level, globalization, political risk and science and technology investments significantly correspond to outward FDI from low- and middle-income countries. The present study analysis recommended that low and middle income governments provide incentives to attract and retain FDI.

JEL Code : O11 ; O3 ; N7 ; B17 ; B22

Keywords : FDI, Macroeconomic, R&D, Technology, Turnover, Interest Rate, Trade, Openness, Currency Reserve

I. Introduction

CROSS-BORDER FLOWS IN goods, services, investments, and ideas led by Multinational Enterprises (MNEs) from Emerging Economies (EEs) has strengthened in the recent decade with diligent technical progression (Caves, 1971). MNEs have traditionally accepted the bulk of such investment in upper-middle-income countries. However, low- and middle-income countries and developing countries now account for an increasing share of MNEs (Awate, Larsen and Mudambi, 2015; Cuervo-Cazurra, 2008). With the competitive association of MNEs at the international level, industrialization has accelerated

* Research Scholar, CHRIST (Deemed to be University) and Assistant Professor, NMKRV College for Women, 45/1, 22nd Cross, Jayanagar, III Block, Bengaluru, Karnataka, 560011, INDIA.

** Assistant Professor and Research Supervisor, CHRIST (Deemed to be University), Hosur Road, Bhavani Nagar, S.G. Palya, Central Campus, Bangalore, Karnataka, 560029, INDIA.

The present study analysis recommended that low and middle-income governments provide incentives to attract and retain FDI. Governments should prioritize infrastructure development, human capital development, skilled labour force development, and political and economic stability. FDI from low middle and upper-middle-income economies helps augment the firm's specific advantages of domestic firms. Domestic firms obtain FDI benefits through the reverse spillover effect through integration and learning from overseas firms. It anticipated that the government would continue to promote overseas investment in the future, boosting home country exports and providing cheaper raw materials to parent companies through reverse FDI. Institutional differences between economies need more attention, especially for transition and low- and middle-income economies.

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