



Foreign Direct Investment Outflows From India: An Analytical Review

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ABSTRACT:

The Foreign Direct Investment Outflow (FDIO) is the investment done by a country to the other countries. The outward foreign direct investment is the capital investment made by a home country in the foreign destinations countries. In the contemporary international economic perspective, foreign direct investment outflow is equally important as the foreign direct investment (FDI) inflow for economic growth and development of an economy. Globalization and international capital movements are two way processes. As per the findings of the study, there has been an increasing trend in the foreign direct investment outflow from India during the period under the study that is from 1994 to 2023. The compound annual growth rate of the foreign direct investment outflow from India to the rest of the world has been found to be significant over the same period under the study. The major destinations of foreign direct investment (FDI) outflow from India are the countries like Singapore, Mauritius, Netherland, United States of America (USA), the United Arab Emirates (UAE), United Kingdom (UK), Hong Kong, Sudan, Australia etc. This paper is an effort to investigate the present status as well as the trend in the foreign direct investment outflow from India from the year of 1994 to 2023.

Index Terms: Foreign Direct Investment Outflow, Outward FDI Destinations.

I. Introduction:

The Foreign Direct Investment Outflow (FDIO) that is the outward FDI is the direct investment of capital by the investors of a country to the other countries. In the modern day globalised economies, foreign direct investment plays an important role in the growth and development particularly in the developing economies of the world. Foreign direct investment is the international capital movements for long term investments for productive purposes and the managements of the capital investments are generally controlled by the investors or the agents of the investors of the investing countries (Chopra et. al., 2014). Globalization and international capital movements are of two way processes. Along with the inflow of foreign direct investments, there have been outwards foreign direct investments in almost all the countries participating in global trade and business particularly with the wave of new economic policies adopted by the different countries.

As the global economic partner, Indian economy has the increasing interactions with the rest of the world not only in terms of FDI inflows but also in terms of FDI outflow over the past decades. There has been increasing trend in the foreign direct investment outflows from India during the period under the study. The FDI outflow from India was 54 Million US Dollars in the year of 1991 which has increased to 16,877 Million US Dollars in the year of 2011 (Chopra et. al., 2014). In the year of 2023, the FDI outflow from India has gone down and it was 13,341 Million US Dollars this year. There had been fluctuations of outward

FDI from India. During the years of locked down caused by pandemic in the years of 2020 and 2021, there had been slow down of international capital movements and hence FDI outflows from India was also negatively affected.

II. Objectives of the Study:

This study is based on the following objectives.

- i. To understand the present status of foreign direct investment outflows from India to the rest of the world.
- ii. To examine the trends in the foreign direct investment outflows from India from the year of 1994 to 2023.
- iii. To know the compound annual growth rate in the foreign direct investment outflows from India to the rest of the world during 1994 to 2023.

III. Methodology Applied:

Data: Source:

The present study is based on the secondary data. Secondary data have been collected from the United Nations Organization’s data base. Moreover, for this study secondary data have been collected from different journals, articles and other published sources.

Data Analysis:

For analyzing the data, both the descriptive as well as the analytical methods have been applied in this study. Different statistical tools have been used for analyzing the data. Trend lines have been fitted. Moreover, averages, percentages and ratios have been estimated.

For estimating the compound annual growth rate (CAGR) in the FDI outflows from India regression line (OLS) has been fitted. Accordingly, to estimate CAGR, the following semi-log linear trend equation has been estimated.

$$\ln Y = \alpha + \beta t + U \dots\dots\dots (i)$$

Where,

$\ln Y$ is the logarithmic value under consideration, that is the dependent variable (FDI Outflows from India).

α is the constant term, β is the coefficient to be estimated, t is the independent variable (time variable) and U is the disturbance term in the regression model.

Ordinary Least Square (OLS) technique has been used to determine the value of the respective coefficients.

The compound growth rate (r) has been calculated as follows-

$$r = (e^{\beta_1} - 1) * 100 \dots\dots\dots (ii)$$

Where,

e^{β_1} is the exponential value of the regression coefficient β_1

IV. Review of Literatures:

The relevant literatures have been reviewed in connection to the topic of the present study. The review of literatures have presented as follows.

Iqbal, Turay, Hasan and Yusuf (2018) have studied the outward foreign direct investment from India. This study focused on the emerging trends of FDI outflows and the different issues related to it. The authors studied the trends in foreign direct investment outflows both at the global as well as at the national perspectives in India. As per the findings of this study, the outward FDI from India was limited till 1991. Since the year of 1991 when the new economic policy was introduced in India, the level of FDI outflows has increased significantly.

Bandekar and Sankaranarayanan (2014) have investigated the trends and drivers of FDI outflows from India. According to this study, during the current era of globalization, India's foreign direct investment outflow has increased significantly. The amount of foreign direct investment outflow was 514 Million U.S. Dollars in the year of 2000 which has increased to 15 Billion U.S. Dollars in the year of 2010 as per the finding of this study.

Ravi, Sebastian and Charu (2010) have analyzed the FDI outflows from India. The authors have examined the policies of foreign direct investment (FDI) outflow and their impacts in Indian economy. This study also focused on the driving factors that lead to increased in FDI outflows from the country. In this study, the authors have analyzed outward FDI based on 287 instances of foreign direct investment across the 17 sectors. The key policy changes on FDI outflow from India and their consequences have been examined in this study.

Joseph (2019) has investigated the FDI outflow from India, emerging trends in foreign direct investment outflow and its related policy issues. The author has particularly focused on the policy changes on outward foreign direct investment from India since 1960s. As per the finding of the study, there has been growing FDI outflow from India in terms of services which overtakes the FDI outflow in terms of manufacturing sector.

Khanna (2021) examines the outward foreign direct investment from India. The author has focused on the trend in FDI outflows and preliminary evidences on the effects of Covid-19 Pandemic on the FDI outflow from India. This study examines the disaggregated, sector wise and destination oriented trend in FDI outflow from the country over the study period.

Chopra and Sachdeva (2014) have investigated on the trends in FDI inflow in India as well as FDI outflow from India. According to the authors, with the introduction of globalization and liberalization policies in India in the year of 1991, there have been enlarged interactions between Indian economy and the rest of the world. Both the FDI inflows and the FDI outflows have increased by many folds after the initiation of new economic policies introduced in India.

V. Findings and Discussions:

The findings of the present study have been analyzed, discussed and presented in the following sections.

V.1 Basic Statistics of Foreign Direct Investment (FDI) Outflow from India:

The basic statistics of the foreign direct investment (FDI) outflow from India from the year of 1994 to 2023 have been estimated. Arithmetic mean, median, standard deviation, variance, maximum and the minimum values the FDI outflow from the country during the study period have been computed and presented in the following table [refer table no. 1].

Table No. 1: Basic Statistics of the Foreign Direct Investment (FDI) Outflow from India during 1994 to 2023:

Variable	Arithmetic Mean	Median Value	Standard Deviation	Variance	Maximum Value	Minimum Value
FDI Outflow (in Million US Dollars)	8281.65	11041.03	6663.50	44402262	18730	47

Source: Author’s self estimates based on the data published by UNO.

It has been observed in the table [refer table no. 1] that the value of arithmetic mean of FDI outflow from India is 8,281.65 Million U.S. Dollars during the period under the study, that is from 1994 to 2023. The calculated value of median is 11,041.03 Million U.S. Dollars of the variable under consideration. As found in the study, the estimated value of standard deviation of FDI outflow from India is 6,663.50 during the same period of time. The maximum value and the minimum values FDI outflow from the country are 18,730 Million U.S Dollars and 47 Million US Dollars respectively from the year of 1994 to 2023.

V.2 The Trend in the Foreign Direct Investment (FDI) Outflow from India:

To have the clear understanding about the foreign direct investment (FDI) outflow from India, a trend line has been fitted of the FDI outflow from the year of 1994 to 2023 in India. The fitted trend line and the actual trend line of the FDI outflow has been presented in the following figure [refer figure- 1].

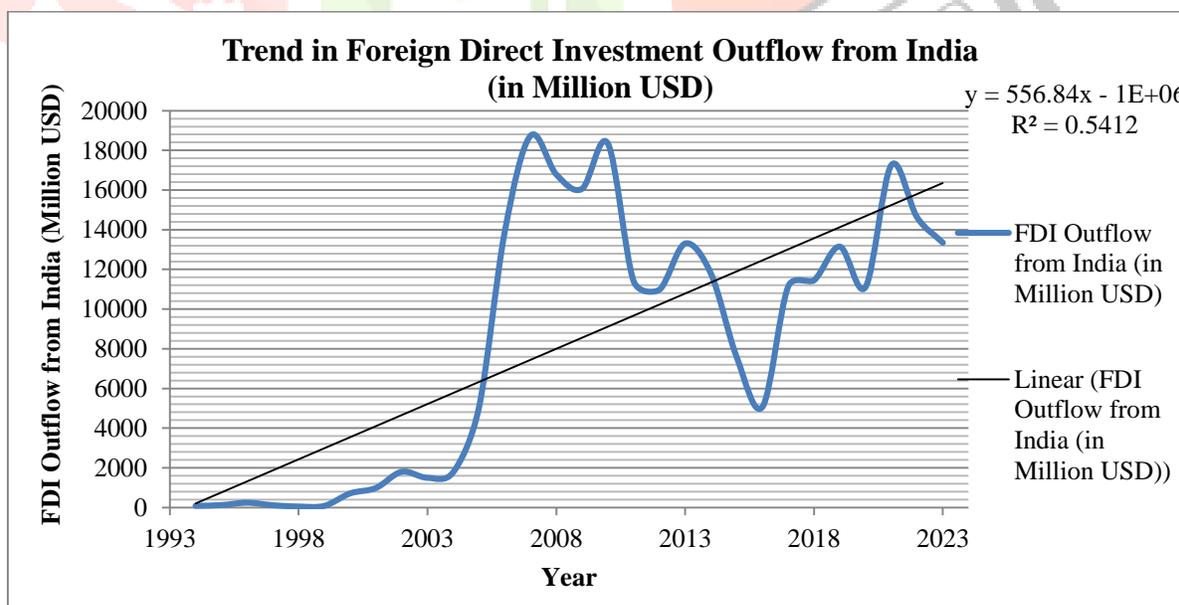


Figure- 1

It has been observed in the figure [refer figure- 1] that there has been increasing trend in the foreign direct investment (FDI) outflow from India during the period under the study, that is from 1994 to 2023. As found in the figure that the actual trend line has the fluctuations around the fitted trend line. From the year 1994 to 1998, there has been very low level of foreign direct investment outflow from India. From the year of 2004,

there was steep up in the actual trend in foreign direct investment outflow from India as found in the study. But, from 2013 the actual trend line comes below the fitted trend line as observed in the figure [refer figure-1]. In the recent years, there has been rising trend in the actual trend in the foreign direct investment outflow from the country.

V.3 The Compound Annual Growth Rate (CAGR) in the Foreign Direct Investment Outflow from India:

To understand clearly about the present status and the growth in the foreign direct investment (FDI) outflow from India, the compound annual growth rate of FDI outflow has been estimated for period from 1994 to 2023. The estimated value of the compound annual growth rate (CAGR) of the FDI outflow during the period under the study from India has been presented in following table [refer table no. 2].

Table No. 2 The Compound Annual Growth Rate of Foreign Direct Investment (FDI) Outflow from India during 1994 to 2023:

Variable	All India		
	CAGR	R ²	F Value
Foreign Direct Investment (FDI) Outflow (Million U.S. Dollar)	0.186*** (0.024)	0.684	60.726***

Source: Self estimates based on data published by United Nations Organization (UNO).

Note: *** indicates significance at 1 percent level, ** indicates significance at 5 percent level and * indicates significance at 10 percent level. Values in the parentheses represent standard error.

It has been observed in the table [refer table no. 2] that the estimated coefficient of the variable foreign direct investment (FDI) outflow from India is 0.186. This implies that the compound annual growth rate (CAGR) of FDI outflow from India during 1994 to 2023 is 18.6 percent. Moreover, the compound annual growth rate is statistically highly significant at 1 percent level. This shows that 1 percent increase in the independent variable results 18.6 percent increase in the dependent variable.

From the table [refer table no. 2] that value of R square is 0.684 which implies that 68.4 percent change in the dependent variable has been explained by the independent variable. The estimated value of F statistic is found to be significant. This implies that the model is better fitted.

V.4 Major Destinations of FDI Outflows from India:

The foreign direct investment outflow (FDIO) from India has been growing not only in terms of amount of capital but also in terms of geographical distributions across the countries over the globe. The outward foreign direct investment from India focused on the investment in resource rich countries as well as the countries that provide comparatively higher tax concession on foreign direct investment. The major destination countries of foreign direct investment (FDI) outflow from India are Singapore, Mauritius, Netherland, United States of America (USA), the United Arab Emirates (UAE), United Kingdom (UK), Hong Kong, Sudan, Australia etc. The cumulative value of outward Foreign Direct Investment (FDI) of India in Singapore is 90.58 Million US Dollars from the year 2008 to 2024. The annual outward foreign direct investment from India to Singapore reached to 4.872 billion US Dollars. Thus, the country Singapore is one of the leading direct investment destinations for India.

Similarly, the country Mauritius is another major destination of India's outward foreign direct investment. The cumulative value of foreign direct investment outflow from India to Mauritius is 237.189 Million US

Dollars from the year of 2007 to 2018. Moreover, India also invests in Australia in terms of outward foreign direct investment. The outward foreign direct investment from India to Australia was 7.282 Million US Dollar in the month of October, 2018. India also invests a huge amount of capital in the United Arab Emirates (UAE) in terms of outward foreign direct investment. The cumulative value of outward foreign direct investment from India to the United Arab Emirates (UAE) reached to over 3.9 billion US Dollars from 2018 to 2022 (Rathore, 2025). Moreover, India invests considerable amount of capital in countries in Southeast Asia in terms of outward foreign direct investment.

VI. Conclusion:

The foreign direct investment outflows from India play an important role in economic growth and development in a country. With the expansion of globalization, the outward foreign direct investment from India has been increasing considerably. As per the findings of the study, there has been an increasing trend in foreign direct investment outflow from India towards the rest of the world from the year of 1994 to 2023. The compound annual growth rate of the foreign direct investment outflows from India has been found to be significant over the period under the present study. Moreover, countries like Singapore, Mauritius, the United Arab Emirates, Netherland, and the United States of America are some of the major destinations of outward foreign direct Investment of India. There was slow down of foreign direct investment outflow from India during the period of pandemic and the consequent locked down globally. But in the recent years, there has been increasing trend in the actual volume of outward foreign direct investment from India.

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