CHAPTER 4

TRENDS AND PATTERNS OF OUTWARD FOREIGN DIRECT INVESTMENT

Increasing outward foreign direct investment from some developing countries, especially in Asia, over the past decade, represents another and perhaps more dynamic aspect of their growing economic integration with the world economy, in addition to their deepening trade linkages and FDI inflows. In view of this, the objective of this chapter is to evaluate the outward FDI from India in light of the "IDP" (Investment Development Path) version as given by John Dunning and also to analyze the major motivations and implications for these investments. This is done by analyzing the trends and patterns in the FDI flows of India indicating their motive for supporting non-price competitiveness and also examining the government policy change towards outward flows.

The present chapter analyses the trends and patterns of outward FDI flows from India, focusing specially on the period of post liberalisation .The issues that have been studied in this chapter are as follows:

- The comparative standing of India among developing countries.
- The pattern of destination countries of Indian FDI flows.
- The nature of change in the sectoral composition of FDI flows from India.
- The structure of cross border mergers and acquisitions from India.
- The FDI flows as a percentage of GDP and GFCF.
- FDI performance v/s potential in India.
- Major policy initiatives taken to boost FDI out flows.

Two major questions are addressed here:

- Whether the OFDI from India has undergone a fundamental shift that might be considered as a distinct second wave of OFDI, which differs substantially from the first wave?

- Whether this new wave can be successfully explained within the framework of the "IDP" (Investment Development Path)?

As regards the outward foreign direct investment from India, the hypothesis examined is as follows:

"Outward FDI from India has undergone a fundamental shift, which can be successfully explained as stage two, within the framework of the Investment Development Path."

SECTION 4.1

EXPLAINING THE INVESTMENT DEVELOPMENT PATH

The level of development of an economy is an important determinant of FDI as propositioned by Dunning. It explains how the net outward investment position of a country is related to the various stages of development. Using data on the flows of FDI and per capita GDP of sixty-seven countries covering the period 1967-1975, Dunning has shown that after per capita income reaches a threshold limit, further increases are associated with rising gross outward and gross inward investment but the shape of net outward investment takes a "U" or "J" type shape.

Earlier the countries were divided into four stages of development defined by the average per capita income range. However, the concept of Investment Development Path (IDP) has been revised and extended in several papers and books (Dunning 1986, 1988, 1993; Narula, 1993, 1995; Dunning and Narula 1994, 1996). According to the revised studies there are five stages of development outlined below:

Stage I

There is no gross outward investment either because the country's own enterprises have no specific advantages, or are exploited by minority direct investment. Smallness of gross inward investment may be due to small market size, poor infrastructural facilities and lack of trained and educated workforce.

Stage 2

Inward investment is more which leads to expanding the domestic market. Outward investment is small as the domestic enterprises are yet to fully develop the Ownership specific advantages. Frequently inward foreign investment is stimulated by host government's imposing desirable tariff and non tariff barriers. A country must posses some desirable Locational (L) characteristics to attract inward direct investment, although the extent to which the foreign firms are able to exploit these will depend upon its development strategy and the extent to which it prefers to develop technological capabilities of the domestic firms. The extent to which outward direct investment is undertaken will be influenced by home country induced push factors such as subsidies for exports and technology development or acquisition, as well as the changing Locational advantages such as relative production costs.

Stage 3

In this stage a country begins to get specialization in direct investment. The country seeks to attract inward direct investment in those sectors in which the comparative Locational advantages are strongest and comparative Ownership advantages of its enterprise are the weakest. Countries in this stage are marked by a gradual decrease in the rate of growth of inward direct investment, and an increase in the rate of growth of outward direct investment that results in increasing NOI (Net Outward Investment). Comparative advantages in labour intensive activities will deteriorate, domestic wages will rise, and outward direct investment will be directed more to countries at lower stage in their Investment Development Path. The original Ownership advantages of foreign firms also begin to be eroded as domestic firms acquire their own competitive advantages and compete with them in the same sectors. The role of government induced advantages is likely to be less significant in this stage as those of FDI induced Ownership advantages take on more importance.

Stage 4

It is a situation in which local firms develop strong Ownership advantages to be reaped best through Internationalization of foreign investment abroad. Firms are induced to invest abroad due to rising domestic labour costs and lower rates of productivity.

Stage 5

During this stage, The NOI position of a country first falls and later fluctuates around the zero level. At the same time both inward and outward FDI are likely to continue to increase. This is the scenario which advanced industrial nations are now approaching. Stage 5 of the Industrial Development Path represents a situation in which no single country has an absolute hegemony on created assets. Moreover the Ownership advantages of the MNCs will be less dependent on their country's natural resources but more on their ability to acquire assets and on their ability of firms to organize their advantages efficiently and to exploit the gains of cross border common governance.

EXPLAINING OLI (OWNERSHIP, LOCATIONAL, INTERNALISATION) THEORY

Dunning developed the idea of firm-specific advantages further resulting in the so-called "OLI" (Ownership, Locational, Internalisation) paradigm of FDI, also known as the "Eclectic Theory" of FDI. This paradigm was presented in Dunning (1977). The contribution of the "OLI" paradigm is that it provides a framework for a discussion of the motives for FDI. It also allows for a discussion of the choice of an MNC between licensing, exports and FDI in order to serve a foreign market. This choice is determined by Ownership advantages, Location advantages and Internalisation advantages, thus the acronym "OLI".

Ownership Factors

Ownership advantages are based on the concept of firm-specific advantages. To cancel out the disadvantage of operating in a foreign country, a firm must possess an ownership advantage. The ownership advantage comes in the form of an asset reducing the firm's production cost and allows it to compete with domestic firms in the foreign economy despite the information disadvantage. Ownership advantages come in the form of assets such as patents, management or technology. In order to provide an ownership advantage, the possessing firm has to be able to exclude competing firms from using the asset. To create conditions for FDI, ownership advantages also have to be transferable to a foreign country and possible to use simultaneously in more than one location, to create conditions for FDI.

Locational Factors

Locational advantages determine how attractive a location is for production. A strong location advantage reduces a firm's production costs in that location. Location advantages can never be transferred to another location but can be used by more than one firm simultaneously. For example, a supply of cheap labour can provide a location advantage for several labour-intensive firms. If the home country provides the strongest location advantage to the firm, FDI does not take place. Instead, production is located in the home country, and the output is exported in order to meet demand in the foreign economy.

Internalisation Factors

The existence or non-existence of an Internalisation advantage determines how the MNC chooses to use its Ownership advantage. Internalisation gains concern those factors which make it more profitable to carry out transactions within the firm rather than to rely on external markets. Such gains arise from avoiding market imperfections like uncertainty, economies of scale, problems of control etc. Existence of an Internalisation advantage implies that the firm's most efficient alternative of using an ownership advantage is through exports or FDI. If an internalization advantage is missing, it is more profitable for the firm to exploit its ownership advantage through selling the right of its use to another firm through licensing. Existence or non-existence of an Internalisation advantage determines a MNCs choice between own production and licensing of the production to an external firm.

SECTION 4.2

TRENDS AND PATTERNS OF OUTWARD FDI

Table 4.1: Outward FDI – world and developing countries (US$ billion)

Item	Value at current prices		
	2004	**2005**	**2006**
World Outward FDI flows	877	837	1216
Outward FDI flows from developing economies of which:	117	116	174
South Africa	1.4	0.9	6.7
Brazil	9.8	2.5	28.2
China	5.5	12.3	16.1
Korea	4.7	4.3	7.1
India	2.2	2.5	9.7
Singapore	8.1	5.0	8.6
Russian Federation	13.8	12.8	18.0
World outward FDI stock	10325	10579	12474
Income on outward direct investment	607	845	972
Cross border M & As	381	716	880
Total assets of foreign affiliates	42807	42637	51187
Exports of foreign affiliates	3733	4197	4707
Employment of foreign affiliates (in thousands)	59458	63770	72627

Source: RBI Bulletin 2008 and WIR 2007

According to the UNCTAD's World Investment Report (2007), the global outward FDI amounted to US$ 1,216 billion in 2006, recording a significant growth from US$ 230 billion in 1990. The global outward FDI stock stood at US$ 12,474 billion in 2006, as compared with US$ 1,815 billion in 1990. OFDI from developing economies amounted to US$ 174 billion in 2006, representing about 14 percent of world outward FDI flows (US$ 1,216 billion). (Table 4.1)

UNCTAD's World Investment Report 2004 noted that India stood out among Asian developing countries, not only because of the recent significant increase in the OFDI flows but also because of "its potential to be a large outward investor" with annual outflows averaging US$ one billion during the period 2001-2003 (UNCTAD 2004). A growing number of Indian enterprises are beginning to see OFDI as an important aspect of their corporate strategies and are emerging as MNCs in their own right.

Table 4.2: FDI outflows originating in developing countries 1982-2007 (US$ million)

	1982-1987 Ann. Avg	1990	1991	1995	1990-2000 Ann. Avg	2005
Global outflows (World)	69369	229598	195516	363251	492622	837194
Developing Countries	3760	11913	13490	55079	52820	115860
percent Share	5	5	7	15	10	12
Selected Asian Developing Countries						
China	333	830	913	2000	2195	12261
Hong Kong	-	2448	2825	25000	20393	27201
Rep. of Korea	106	1052	1489	3552	3101	4298
Malaysia	-	129	175	2488	1550	2971
Singapore	178	2034	526	6787	4757	6943
Taiwan	162	5243	2055	2983	3777	6028
Thailand	29	154	183	887	370	503
India	3	6	-11	119	110	2495

Source: WIR 2007, UNCTAD

Table 4.2 summarizes the data on the global outflows of FDI. It shows that the developing countries which contributed just 5 percent of the global FDI flows in early eighties currently provide around 12 percent of the global flows. It can be said that the bulk of these flows originate in the developing countries in the east, south east and south Asian countries, which contribute around 90 percent of all FDI outflows originating in the developing countries (WIR, 2007). However, it must be mentioned that this increase is also on account of a big increase in the annual outflows of FDI from Hong Kong which have increased rapidly from 1995 onwards. It can be seen that Hong Kong accounts for the highest share among the developing countries (23 percent). This can account for the overblown nature of the FDI flows. However, the data shows the emergence of countries like Korea, Taiwan, China, Malaysia, and India each providing more than about US$ 7 billion in annual outflows. This is an impressive amount considering the fact that the inflows of FDI to all the developing countries averaged around US$ 30 billion in a year.

EVOLUTION OF INDIAN OUTWARD FDI

Indian firms have been investing abroad for a long time; however, it is only in recent years that Indian OFDI has become more notable. The evolution of OFDI flows from India can be divided in the pre liberalisation period and post liberalisation period. Changes in the nature of Indian OFDI flows can be explained in terms of size and growth, geographical spread, sectoral characteristics, pattern of ownership and motivations (Box 4.1 & 4.2). This classification explains how the liberalisation policies have affected the quantum, character and motivations of OFDI flows.

Based on the nature and cross-border production activities undertaken by Indian firms, the emergence of OFDI from India can be divided into three distinct periods:

1. From 1975 to 1990 (Pre-Liberalisation period)
2. 1991 onwards (Post-Liberalisation period)
3. 2001 onwards (Post Second Generation Reforms)

Box 4.1: Characteristics of India OFDI – "Pre-liberalisation to Post-liberalisation"

Pre-Liberalisation (1975-1990)	Post-Liberalisation (1991 onwards)
1.OFDI was largely led by the manufacturing sector	1. OFDI originated from all the sectors of the economy, but the service sector is the dominant
2. Developing countries were the dominant host	2. Emergence of developed countries as host countries
3. Indian equity participation was largely minority owned	3. Indian equity participation is largely majority owned
4. Reasons for OFDI were access to larger markets, natural resources, and escaping from government restrictions on firm growth in domestic market	4. Reasons for OFDI are market seeking to acquire strategic assets like technology, marketing and brand names, efficiency seeking and to establish trade supporting networks

Box 4.2: Characteristics of Indian OFDI at different stages of the "IDP"

	Pre-Liberalisation (stage 1)	Post-Liberalisation (stage 2)	Post 2nd Generation Reforms (stage 2)
Destination	Regional FDI (Neighbouring and other developing countries)	Majority still regional but expanding to global basis	Large share of developed countries
Motivation	"Resource seeking" and "market seeking" in developing countries	In developing countries - "resource and market seeking" In industrialized countries - "asset seeking" and "market seeking"	"Efficiency seeking" Motivation aimed at optimizing use of country's comparative and competitive advantage
Types of OFDI	In developing countries - natural asset intensive, small scale production in light industries	In developing countries - natural asset intensive In developed countries - assembly type "market seeking" and "asset seeking" investment	Capital and knowledge intensive sectors. Capital / Labour ratio dependent on natural created assets of host
Ownership Advantages (OA)	Primarily Country of Origin specific: Basic OA	Both Firm and Country specific	Mainly Firm Specific – Advanced OA

Examples of Ownership Advantages	Conglomerate group ownership, technology, management adapted to third world countries, low costs inputs and ethnic advantages	Conglomerate group ownership, management adapted to third world conditions, low cost inputs, ethnic advantages, product differentiation, limited marketing skills, vertical control over factor an product market, subsidized capital	Large size economies of scale, access to capital markets, technology, product differentiation, marketing know how, cross country management skills, globally efficient intra firm activity, vertical control over factor and product-markets

Adapted from John Dunning

SIZE AND MAGNITUDE OF INDIAN OFDI FLOWS

Analysing the growth trends, the nineties represents a structural period in the emergence of Indian OFDI with an upward shift in the quantum of outward investment, numbers of approved OFDI applications and numbers of outward investing Indian firms as can be seen from the following table:

Table 4.3: Indian OFDI Stock 1976–2006 (US$ million)

Year	Number of Approvals	OFDI Stock (US$ million)			
		Approved		Actual	
		Value	% Change	Value	% Change
1976	133	38	-----	17	-----
1980	204	119	213	46	171
1986	208	90	-24	75	63
1990	214	NA	------	NA	----
1995	1016	961	------	212	----
2000	2204	4151	332	794	275
2006	8620	16395	295	8181	930

Source: Pradhan, 2007 pp.4

OFDI activity from India became significant since the onset of economic reforms in 1991, though a few Indian enterprises were investing abroad in the mid-sixties (Lall, 1983, 1986). OFDI underwent a considerable change in the nineties in terms not only of magnitude, but also the geographical focus and sectoral composition of the flows

(Kumar, 2004). As seen from the above table the number of OFDI approvals increased considerably from 214 in 1990 to 1016 in 1995. It can be argued that the change in the geographical and sectoral composition of OFDI has been in line with the change in their motives from essentially "market-seeking" to more "asset-seeking" ones to support exporting with a local presence (Kumar, 1998).

Alongside the liberalization of policy dealing with inward FDI, the policy governing OFDI has also been liberalized since 1991. The guidelines for Indian joint ventures and wholly-owned subsidiaries abroad, as amended in October 1992, May 1999 and July 2002, provided for automatic approval of OFDI proposals up to a certain limit that was expanded progressively from US$ 2 million in 1992 to US$ 100 million in July 2002. In January 2004, the limit was removed altogether and Indian enterprises are now permitted to invest abroad up to 100 percent of their net worth on an automatic basis. Hence the magnitudes of OFDI flows as well as their numbers have risen considerably over the past few years.

Table 4.4: FDI Outward Stock (US$ billion)

	World	Developing Economies	India
1992-97*	2842.28	325.29	0.4685
1998	4347.76	575.28	0.7
1999	5204.84	728.72	1.7
2000	6209.45	858.92	1.85
2001	6642.42	856.5	2.61
2002	7433.87	862.03	4
2003	8779.52	942.68	5.82
2004	10151.83	1106.29	7.75
2005	10578.8	1284.85	10.03
2006	12474.26	1600.3	12.96

* Annual Average *Source: WIR 2007*

Though Indian outward FDI was very low, growth has been very impressive, notably since 2000. From a meager US$ 0.70 billion in 1998 the stock value grew to US$ 12.96 in 2006 (table 4.4). In 2004, India held 16th slot in terms of outward stock among developing economies (12th if we exclude tax havens such as Virgin Islands, Cayman Islands, Panama, and Bermuda). (WIR, 2005)

Table 4.5: FDI Outflows (US$ billion)

	World	Developing Economies	India
1992-97*	3238.2	51.3	0.09
1998	697.05	50.66	0.047
1999	1108.35	68.65	0.08
2000	1239.19	133.34	0.5
2001	745.47	80.56	1.39
2002	540.71	47.06	1.67
2003	560.08	45.37	1.87
2004	877.3	117.36	2.17
2005	837.19	115.86	2.49
2006	1215.78	174.38	9.67

* Annual Average *Source: WIR 2007*

Indian FDI outflows surged to US$ 2.2 billion in 2004, and US$ 9.6 billion in 2006, which was a record level. Though it only represents only 0.24 percent of the world FDI outflows and 1.84 percent of the outflows issued by developing countries (2004) and 0.79 percent and 5.53 percent respectively (2006), the progression of Indian Investments has really been spectacular since 2001 when they reached US$ 1.3 billion (table 4.5).

Indian outward FDI flows amounted to 0.5 percent of the gross fixed capital formation in 2000 and 5.0 percent in 2006. It was less than the average in the developing countries (8.6 percent) in 2004; however, comparatively better (6.4 percent) in 2006 (table 4.6). In 2004, India held the 7th rank among the developing countries for its investments in foreign countries (behind Hong Kong, Singapore, Brazil, Taiwan, South Korea and Mexico). (WIR, 2005)

Table 4.6: FDI outflows as a percentage of GFCF

	World	Developing Economies	India
2000	18.1	8.6	0.5
2001	11.2	5.3	1.3
2002	8.1	3	1.5
2003	7.5	2.5	1.4
2004	10.1	5.5	1.2
2005	9.2	4.7	1.4
2006	11.8	6.4	5

Source: WIR 2007

Indian outward FDI garnered a new dimension in 2001-02 when it became more diversified, involving a large no. of countries and companies. The Government encouraged outward FDI and overseas Mergers and Acquisitions[1] . Even public sector enterprises were at the forefront of these investments. Since 2000, ONGC has set up large businesses abroad (notably in Russia, Angola) and Indian Oil Corporation invested massively in Libya in 2004-05.

Many Indian firms have developed Ownership specific advantages which spur on their investments abroad. Further, Indian firms have comfortable financial means and can afford to invest abroad. This investment is funded by former profits, banking loans, and stock markets. India has a great no. of experienced and competitive companies with capabilities in large areas of activities, from raw materials to cutting edge services.

[1] For instance, in January 2004, the Indian Government removed the ceiling of US$100 million on foreign investment by Indian Companies and raised it to equal their net worth.

REGIONAL DISTRIBUTION OF INDIAN OUTWARD FDI FLOWS

Between 1996 and 2004, developing countries and Russia received about 70 percent of FDI from India. This trend could be explained by the various geographic, economic and social proximities to these regions. Another reason could also be the need to secure natural resources like energy etc many of which are located in Africa, Latin America and Russia. The share of Asia in receiving these flows has also been increasing over a period of time. Hong Kong, Singapore, and Vietnam taken together accounted for 10 percent of the total Indian FDI. China is also becoming one of India's largest trading partners[2]. In case of industrial countries, the share of FDI outflows from India has been booming since 2000. North America and European countries respectively accounted for about 30 percent and 12 percent of Indian FDI abroad between 1996 and 2005 (table 4.7). Indian firms are increasingly attracted by the US and EU.

Table 4.7: Country-wise approved Indian direct investments in joint ventures and wholly-owned subsidiaries, main countries (US$ million)

	Apr'96- Mar'02	2002-03	2003-04	2004-05	2005-06 (Aug)	Total
Russia	1748.68	0.15	1.43	1076.17	1.068	2827.450
USA	1540.83	185.27	207.14	251.73	135.83	2320.780
Mauritius	618.34	133.35	175.59	149.38	55.9	1132.56
Virgin Islands	776.53	3.27	4.92	131.41	14.71	930.84
Bermuda	232.63	28.95	142.46	221.26	2.6	627.9
Sudan	-	75.0	162.03	51.55	43.13	1006.71
United Kingdom	410.62	34.53	138.48	71.85	120.09	775.58
Hong Kong	445.12	14.8	16.15	73.64	22.22	571.93
Singapore	152.96	46.79	15.85	239.03	19.49	474.12
Australia	6.99	94.97	92.87	158.76	28.97	382.56
Netherlands	157.92	15.92	30.18	30.65	124.56	359.23
UAE	110.24	12.6	32.07	41.85	61.30	258.06
Vietnam	228.79	0.06	0.04	0.06	0	228.95

[2] The top Indian IT Indian service players have already invested in China.

Oman	204.88	0.35	1.51	5	1.7	213.44
China	38.8	30	27	15	44	153

Source: *Reserve Bank of India (Database on Indian Economy).*

According to RBI sources ten countries account for 86.1 percent of approved Indian FDI abroad since 1996. Russia accounted for 23 percent of the total cumulative Indian FDI outflows due to oil and gas industries[3]. The USA is the second destination of Indian outward FDI – it received 18 percent of it between 1996 and 2005. It is one of the favourite destinations of Indian FDI. Two tax havens, Bermuda and British Virgin Islands account together for 13 percent of the cumulative FDI, followed by Mauritius (9 percent)[4].

With 8 percent of Indian FDI outflows, Sudan also appears as a favourite destination. This rank is related to many investments in the oil sector. However, its share is not regular according to the years. The U.K is the sixth destination of Indian FDI outflows (6 percent). It is a privileged destination in relation to the former colonial and human networks, and on account of the use of English use by businessmen. (Table 4.7)

In all, Indian FDI in Russia, Sudan, and other developing countries is mainly boosted by the research of raw materials and energy, while FDI in the USA (most of the investments in the USA have gone into IT and pharmaceuticals), the UK and other industrial countries is either driven by market targets or by access to know how and technology. As to Bermuda, Virgin Islands and Mauritius they are mainly targeted by financial goals.

[3] Notably the acquisition of Sakhalin Oil field by the Oil and Natural Gas Commission, ONGC.
[4] The double taxation avoidance treaty between India and Mauritius have encouraged Indian firms to practice 'round trip' investment through Mauritius and other tax havens to take advantage of the tax benefits enjoyed by the overseas investors. (WIR, 2005)

Table 4.8: Distribution of Indian OFDI Stock by Host Regions 1976–2006 (In Percent)

Host Region / Economy	1976	1980	1986	1995	2000	2006
Developed economies	10.12	5.02	1.61	40.8	29.62	32.17
Europe	5.41	1.89	1.18	26.8	16.82	13.54
European Union	5.41	1.88	1.15	25.69	16.19	12.75
Other developed Europe	-	0	0.02	1.11	0.63	0.79
North America	4.71	3.06	0.36	10.87	11.85	15.44
Other developed countries	-	0.07	0.06	3.13	0.95	3.19
Developing economies	89.88	92.91	96.31	53.97	68.17	50.5
Africa	23.85	28.85	36.06	7.99	9.93	20.39
North Africa	-	0.11	1.18	0.25	0.98	10.59
Other Africa	23.85	28.74	34.88	7.74	8.96	9.8
West Africa	1.42	15.17	20.81	0.62	0.85	0.41
Central Africa	-	-	-	-	-	0
East Africa	22.43	13.52	14.06	6.9	7.55	9.15
Southern Africa	-	0.05	-	0.23	0.55	0.23
Latin America and the Caribbean	-	-	-	1.75	23.39	10.4
South and Central America	-	-	-	0.71	0.66	0.75
South America	-	-	-	0.01	0.47	0.59
Central America	-	-	-	0.69	0.19	0.17
Caribbean and other America	-	-	-	1.04	22.73	9.65
Asia and Oceania	66.03	64.06	60.25	44.23	34.85	19.71
Asia	64.89	63.94	59.64	44.22	34.84	19.7
West Asia	5.74	5.44	3.46	18.09	12.13	5.25
South, East and South-East Asia	59.15	58.5	56.18	26.13	22.71	14.45
East Asia	0.25	0.07	0.07	5.57	11.28	5.12
South Asia	0.37	9.53	3.99	6.04	4.26	1.93
South-East Asia	58.53	48.9	52.12	14.51	7.17	7.39
Oceania	1.14	0.12	0.6	0.01	0	0.01
South-East Europe and CIS	-	2.07	2.09	5.23	2.21	17.34
South-East Europe	-	2.07	2.09	0.08	0.02	0.06
CIS	-	-	-	5.15	2.19	17.27
World	100	100	100	100	100	100
Memoranda						
No. of Host Countries	22	37	35	84	128	127

Source:

i. *Ministry of Commerce (1976) as quoted in Indian Institute of Foreign Trade (1977) India's Joint Ventures Abroad, pp. 59–64*

ii. *Indian Investment Centre (1981) Indian Joint Ventures Abroad: An Appraisal, pp. 25–29*

iii. *Indian Investment Centre (1986) as quoted in Federation of Indian Chambers of Commerce & Industry (1986)* *iv. Report of Workshop on Indian Joint Ventures Abroad and Project Exports, New Delhi, pp. 74–77*

v. Indian Investment Centre (1991) Monthly Newsletter 25th May, pp. LXVI-LXVII

vi. Indian Investment Centre (1998) Indian Joint Ventures & Wholly Owned Subsidiaries Abroad Up To December 1995, pp. 1–2 and pp.59–60

vii. The website of the Investment Division, Department of Economic Affairs, Ministry of Finance, Government of India.

Indian OFDI had largely been concentrated in the developing regions in the pre liberalized period. Developing countries accounted for about 90 percent of the OFDI stock in 1976 and their share went up to about 96 percent in 1986. The share of developed countries for Indian outward investment firms was comparatively marginal and their share in OFDI stock had in fact declined from 10 percent in 1976 to 2 percent in 1986.

The regional patterns of OFDI activity underwent noticeable changes in the post liberalized period. Increased locational diversification was observed, where developed countries started drawing growing attention of outward investing Indian firms. Total number of host countries for Indian OFDI which was just 37 in the pre 1990s has increased to about 128 in post 1990 period. The share of developed country which was less than 2 percent in 1986 went up to 41 percent in 1995 and consistently stayed above 30 percent share of total OFDI stocks in 2000 and 2006. In the developed region North America followed by the Europe comes out as two top host regions. The sharp rise in the shares of North America and the Europe is on account of larger proportion of Indian OFDI being directed at the USA and UK respectively. The share of developing countries has got significantly reduced from 96 percent in 1986 to 54 percent in 1995 and further to 50.5 percent in 2006. Notably, the countries in the CIS have improved their attractiveness to Indian investors and their share has gone up from 5 percent in 1995 to about 17 percent in 2006. (Table 4.8)

STRATEGIC ASSET SEEKING INVESTMENTS

OWNERSHIP PATTERN

Table 4.9: Changing Ownership Structure of Indian OFDI (Number; Percentage)

Equity Range (Percent)	1975–90			1991–01		
	No of OFDI Approval	Percent	Cumulative Percent	No. of OFDI Approval	Percent	Cumulative Percent
0–20	51	22.9	22.9	41	3.7	3.7
20–50	91	40.8	63.7	230	20.6	24.2
50–80	53	23.8	87.4	211	18.9	43.1
80–100	28	12.6	100	637	56.9	100
Total	223	100		1119	100	

Source: Indian Investment Centre (1987) Fact sheets on Indian Joint Ventures Abroad, as quoted in Ranganathan (1990) Export Promotion and Indian Joint Ventures, Ph.D. thesis, Kurukshetra University, India, pp. 136

The structure of Indian ownership participation underwent a complete shift in the post liberalized period as compared with the pre liberalisation. While the share of minority ownership OFDI projects declined from 64 percent to only 24 percent, the share of majority ownership increased from 13 percent to 57 percent. (Table 4.9)

Table 4.10: Cross-Border Mergers & Acquisitions – Indian Purchases (US$ million)

Year	Sales	Purchases
1997	1520	1287
1998	361	11
1999	1044	126
2000	1219	910
2001	1037	2195
2002	1698	270
2003	949	1362

Source: ICICI-EPWRF data base, 2006

Another significant feature of the post-liberalized period is the emergence of mergers and acquisitions as an important mode of internationalization by Indian enterprises in the nineties. OFDI has begun to grow rapidly, particularly through M&As. As per the RBI's annual report for 2004-05, in 2003 Indian enterprises total cross border acquisitions were worth US$ 1,362 million. (Table 4.10)

The late nineties saw a surge in overseas acquisitions by Indian enterprises. As many as 119 overseas acquisitions were made by Indian enterprises in 2002-2003. Most of the acquisitions were in the software industry followed by pharmaceutical and mining activities. The lion's share of the M&A purchases in the same period was in developed countries, dominated by the United States and United Kingdom. (Table 4.11)

Table 4.11: Overseas M&As By Indian Enterprises, 2000-2003 (Number, Percentage)

Sectoral composition			Regional composition		
Sector	**No.**	**Percent**	**Region**	**No.**	**percent**
Primary	9	7.6	Developed countries	93	78.2
Mining, petroleum and gas	9	7.6	United Kingdom	16	13.4
Industry	34	28.6	United States	53	44.5
Pharmaceuticals	12	10.1	Australia	8	6.7
Paints	4	3.4	Developing countries	20	16.8
Plastic & products	4	3.4	Africa	5	4.2
Services	76	63.9	Latin America and the Caribbean	3	2.5
Software	67	56.3	Asia and the Pacific	12	10.1
All sectors	119	100	All regions	119	100

Source: UNCTAD Case Study, 2005

In the period prior to 1990 Indian OFDI was dominated by Greenfield investments. As opposed to this overseas acquisition has come out as the preferred strategy of Indian companies to enlarge their overseas presence in the post liberalized period. Since the late 1990s a growing number of Indian firms have adopted acquisitions as a less risky mode of foreign market entry and as an easier method of acquiring new technology, skills, experience and marketing intangible assets. Since the motive of Indian firms is to acquire new technologies along with gaining access to large market, developed countries seem to be the ideal destination as they are the centre of frontier technological activities globally and have large-sized domestic markets. A very large proportion of Indian overseas acquisition is being done by software firms with 56 percent of total acquisition, followed by pharmaceutical companies with a share of 10 percent (WIR 2005). These two categories of Indian firms are aggressively looking into expanding their market position in developed countries and are thus using acquisition for the above purpose.

According to a recent study by Grant Thornton (2006), between 2001 and 2005 (until August); Indian companies were involved in 4690 overseas M&As in the world. These deals have been prominent in the IT software services and pharmaceutical industries, and many of them have been made in Europe (50 percent of deal value in 2005), and in North America (24 percent of deal value in 2005). The United States and the United Kingdom have been the countries that garnered the more important outbound deal share.

Access to established brand names and novel product technology constitutes an important aspect of non price rivalry. A considerable proportion of the country's FDI has gone into acquisitions of industrialized country enterprises. This is done to augment the asset bundles of investing enterprises with complementary assets, often established brand names. For example, Dr. Reddy's Lab acquired Betapharm of Germany, Ranbaxy Labs acquired RPG Aventis Laboratories of France, Tata Motors acquired Daewoo Commercial Vehicles of Korea.

TRADE SUPPORTING INVESTMENTS

SECTORAL DISTRIBUTION OF INDIAN OFDI FLOWS

Table 4.12: Sector-wise OFDI of India, 1975-2001 (US$ million)

	Services		Manufacturing		Total	
Period	Number	Equity	Number	Equity	Number	Equity
1975-1985	56	24	80	88	139	116
1986-1990	43	49	48	57	91	106
1991-1995	356	326	419	406	778	733
1996-2001	962	2194	817	1273	1783	3529
1975-2001	1417	2595	1364	1824	2791	4484

Source: ICICI-EPWRF Database, 2006

Table 4.13: Cumulative OFDI Approvals by Indian Enterprises, 1975-2000 (US$ million; Number; Percentages in parenthesis)

Period	Total		Sectoral Composition					
			Extractive		Manufacturing		Services	
	No.	Equity	No.	Equity	No.	Equity	No.	Equity
1975-90	230 (100)	222.45 (100)	3 (1.30)	4.04 (1.82)	128 (55.65)	145.22 (65.28)	99 (43.04)	73.22 (32.91)
1991-2000	2 561 (100)	4262.23 (100)	7 (0.27)	61.14 (1.43)	1 236 (48.26)	1 678.92 (39.39)	1 318 (51.46)	2 522.17 (59.17)
1975-2000	2 791	4484.68	10	65.18	1 364	1 824.14	1 417	2 595.39
	(100)	(100)	(0.36)	(1.45)	(48.87)	(40.67)	(50.77)	(57.87)

Source: UNCTAD Case Study, 2005

During the period 1975 to 1990, around 230 OFDI activities were registered, of which 128 were from the manufacturing sector and 99 from the services sector. During this period, Indian manufacturing firms dominated OFDI activities and in most cases they were directed to developing countries with levels of development similar to, or lower than, those of India. (Table 4.12)

The manufacturing industry accounted for 65 percent and the services industry accounted for about 33 percent of the approvals in terms of equity value, while the extractive sector accounted for less than 2 percent (table 4.13). Figures reported by UNCTAD 2005 show that low and middle-ranking technology manufacturing industries such as fertilizer and pesticides (18 percent), leather (9 percent), iron and steel (7 percent), and wood and paper (5 percent) were the main sources of Indian manufacturing OFDI in the pre-liberalized period. The three leading service industries in this period were financial services and leasing (12 percent), hotels and tourism (11 percent), and trading and marketing (6 percent).

In the post-liberalized period, while the share of manufacturing sector decreased to 39 percent of approved OFDI equity that of service industries rose to 60 percent of equity value and 52 percent of OFDI approvals (table 4.13). Figures reported by UNCTAD 2005 show that the Indian IT industry emerged as the largest source of Indian services OFDI, accounting for 32 percent of total OFDI flows during the post 1990s, followed by media, broadcasting and publishing (17 percent). The leading manufacturing OFDI sources were fertilizers and pesticides (8 percent) and pharmaceuticals (6 percent). Recent years have witnessed a significant increase in natural resources OFDI from India, contributed by acquisitions made by such companies as ONGC-Videsh.

Table 4.14: India's direct investment abroad by sectors (US$ million) (trade supporting investments)

Industry	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Manufacturing	169 (23.8)	528 (53.8)	1271(70.7)	893 (59.8)	1068 (64.8)	1538 (57.4)
Financial Services	6 (0.8)	4 (0.4)	3 (0.2)	1 (0.1)	7 (0.4)	156 (5.8)
Non-financial Services	470 (66.3)	350 (35.7)	404 (22.5)	456 (30.5)	283 (17.2)	531 (19.8)
Trading	52 (7.3)	79 (8.1)	82 (4.6)	113 (7.6)	181 (11.0)	215 (8.0)
Others	12 (1.7)	20 (2.0)	38 (2.1)	31 (2.1)	108 (6.6)	239 (8.9)
Total	709 (100)	981 (100)	1789 (100)	1494 (100)	1647 (100)	2679 (100)

Source: ICICI-EPWRF Database, 2006

The liberalisation of OFDI policy of India during the nineties has provided the ultimate impetus for Indian firms to use OFDI as a means of competitive strength and survival in the globalizing world economy. During the period 2001 onwards the regime for Indian investments overseas has been substantially liberalized in order to provide Indian industry access to new markets and technologies, including R&D, with a view to increasing competitiveness globally and strengthening exports. Overseas investments, which started off initially with the acquisition of foreign companies in the IT and services sector have now spread to other areas, particularly pharmaceuticals, automobiles and petroleum. In addition, many large Indian enterprises in basic industry such as steel, copper and viscose fiber have acquired upstream companies in developed countries such as Canada and Australia with the objective of backward integration. Some of the Indian Pharmaceutical companies are trying to develop stand-alone local operations in overseas market, while Indian telecom enterprises have bought underground telephone cable networks from foreign companies for integrating their domestic telephone networks in the international market.

In recent years, Indian companies have increased their export competitiveness in the global market by investing heavily so as to raise the scale of operations to global size capacities. Total (equity and loans) investment abroad by Indian companies in 2005-06 stood at US$ 2.7 billion, most of which went to the manufacturing sector (57.4 percent). Thus, during this phase, it is the share of manufacturing sector in OFDI which is witnessing a buoyant growth; such outflows have increased to US$ 1,538 million in 2005-06 from US$ 169 million in 2000-01 (table 4.14).

Pharmaceuticals, software and IT-related services have been the main drivers of Indian FDI abroad. As early as 1975-1990, Indian FDI outflows in services went to Singapore, Thailand, Sri Lanka and Malaysia. By the 1990s, most of Indian FDI in services concentrated in developed countries, mainly in the United Kingdom and the United States (UNCTAD, 2005). However, some investors moved into selected developing-countries, especially China, South-East Europe and in the CIS Indian call centers and business-process outsourcing companies started to set up foreign affiliates in countries such as the Philippines and Mexico (WIR, 2005). By 2004, the top 15 Indian software and related service companies had all invested abroad, and many software and pharmaceutical MNCs had global R&D operations

STRATEGIC ACCESS TO MARKETS SEEKING INVESTMENTS

Table 4.15: Some of the biggest acquisitions by Indian companies in last 3-5 Years

Indian purchaser	Company Purchased, Place of FDI
ONGC	Sakhalin, Russia; Royal Dutch Shell, Angola; a Refinery in Sudan; an oil filed in Brazil, ...
Indian Oil Corp.	a large oil block in the Sirte Basin of Libya
Tata Steel	Nat Steel (Singapore), Millennium Steel Company - Cementhai Holding (Thailand) (US$ 130 million)
Tata Chemicals'	Brunner Mond Group Ltd, United Kingdom (US$ 110 million)
Reliance	Flag Telecom (USA) ; Trevira (Germany)
Ranbaxy	RPG Aventis (France)
Infosys	Expert Formation (Australia
Wipro	Nerve Wire, USA
VSNL	Tyco Global Network (USA)
Videocon	Thomson - division picture-tube, France (US$ 289 million)
Apeejay Surrendra	Premier Foods (tea), United Kingdom (US$ 138 million)
Matrix Laboratories	Docpharma NV Belgium (US$263 million), Mchem in China, 43 percent stake in Swiss firm Explora
Videsh Sanchar Nigam	Teleglobe International Holdings Ltd USA
Dr Reddy's	Betapharm, Germany
United Phosphorous	Advanta, Netherlands
Sun Pharma	Able Labs, USA
Continental Engine	Vege Motors, Netherlands
Sundram Fasteners SFL)	Peiner Umformtechnik, Textron Deutschland Germany
Bharat Forge's (BFL)	FAW Corporation (forging industry, automotive), China Carl Dan Peddinghaus Gmbh, Germany
Mittal Steel	ISCOR, South Africa

Table 4.15: Some of the biggest acquisitions by Indian companies in last 3-5 Years

Acquirer	Acquired Company	Country	Deal Value (US$ mn)	Industry
Dr. Reddy's Lab	Betaphram	Germany	570	Pharmaceutical
Ranbaxy Labs	Terapla SA	Romania	324	Pharmaceutical
Ranbaxy Labs	RPG (Aventis) Laboratories	France		Pharmaceutical
Aurobindo Pharma	Milpharm	UK		Pharmaceutical
Matrix Laboratories	Docpharma NV	Belgium	263	Pharmaceutical
Nicholas Piramal	Rhodia's IA	UK		Pharmaceutical
Nicholas Piramal	Avecia	UK		Pharmaceutical
Wockhardt	CP Pharmaceuticals,	UK	18	Pharmaceutical
Cadila Health	Alpharma SAS	France	5.7	Pharmaceutical
M&M	Jiangling Tractor company	China	-	Automobile
Tata Motors	Daewoo Commercial Vehicles	Korea	118	Automobile
Tata Motors	Hispano Carrocera	Spain		Automobile
Bharat Forge	Carl Dan Peddinghaus	Germany		Automobile
Tata Steel	Millennium Steel	Thailand	130	Steel
Tata Steel	NatSteel Asia			Steel
Subex Systems	Azure Solution	UK	140	IT
TCS	Comicrom	Chile	-	IT
TCS	FNS	Australia	-	IT
Satyam Computer	Citisoft	UK	-	IT
Infosys	Expert Information Services	Australia	3.1	IT
Wipro	Nerve Wire Inc,	US	18.5	IT
Videocon	Thomson SA	France	290	Electronics
VSNL	Teleglobe	Canada	240	Telecom
VSNL	Tyco		130	Telecom
Reliance Industries	Flag Telecom	Bermuda	212	Telecom
Reliance Industries	BermudaTrevira	Germany	95	Telecom
Tata Chemicals	Brunner Mond	UK	177	Chemicals
ONGC Videsh	Brazilian Oil Fields from Shell	Brazil	1,400	Oil & Gas
HPCL	Kenya Petroleum Refinery	Kenya	500	Oil & Gas
Tata Tea	Tetley	UK	407	FMCG
Tata Tea	Good Earth	US	50	FMCG
Tata Tea	JEMCA	Czech Rep.	12.5	FMCG
Tata Tea	Energy Brands Inc. – Glaceau	US	677	FMCG
Hindalco	Straits Ply	Australia	56.4	Metals
Aditya Birla	Dashiqiao Chem	China	8.5	
United Phosphorous	Oryzalin Herbicide	US	21.3	Fertilisers

Source: Compiled from Media Reports

Interestingly, the big deals are not only driven by the technology sector but also by traditional sectors such as pharmaceuticals, telecommunications, auto components and other manufacturing activities.

EXPLAINING INDIAN OUTWARD FDI

The explanations behind the second wave of Indian OFDI are mostly related to the shifts in the structure of the world economy and the transformation of their own economies. The following points can be noted:

- The industrial structure in the country has evolved from being primarily based on labour intensive manufacturing (textiles, sundries and other light industry goods) as the leading export sector to industries based on scale economies (chemical and pharmaceutical) and also differentiated industries (automobiles, electric and electronic goods).
- This process of industrial upgrading reflects important changes in the "OLI" configurations and subsequent shifts from stage 1 of the "IDP" to stage 2.
- Since the initiation of an export oriented industrialization policy, IFDI was also encouraged and the authorities played an active role in maximizing the benefits the MNCs could offer by matching domestic Locational and Ownership advantages in the optimal manner.
- Upgrading the resources and capabilities of the Indian economy has also led to more intense direct competition with producers from major trading partners. Because of many external reasons the exporting from the home economy became less attractive, stimulating FDI in production facilities overseas.
- As compared to the pre liberalized period, Indian FDI has become less of a regional phenomenon. Hence industries require Ownership advantages

based on scale economies, making the maintenance and expansion of overseas markets mandatory.

- Another reason for the expansion of value adding activities is the accumulation of firm specific advantages related to marketing. This is one principal motive behind the increased M&A activities of firms from these countries.
- In addition to M&As, Greenfield investments in industrialized countries have also offered opportunities for the MNCs in the third world to search for foreign business environments. Examples are many Indian computer firms that have affiliates in the Silicon Valley to tap locally available technological know how.
- Rapid advance of India to stage 2 of their "IDP" has not been possible without a major change in government policy with regard to outward investment. During the first wave government policies towards outward FDI in most developing countries were mainly directed to capital export restrictions (UNCTAD 1995). This attitude changed in the early nineties when the Indian government confronted with eroding comparative advantages in traditional sectors and with the growing needs of indigenous firms to seek new assets overseas decided to drastically liberalize their policy with regard to capital outflows.
- Indian acquisition abroad entails synergies between, on the one hand, new local distribution networks abroad which boost their sales and, on the other hand, low-cost manufacturing based in India and the possibility to achieve higher scales of production. Some Indian firms notice that many Western companies have their own financial problems increased by stringent labour and environmental regulations prevailing in their country: this is very true in Europe where "the costs of compliance add significantly to overall manufacturing costs" (Darel , 2006).

The limited spread and growth of OFDI in the pre liberalized era was because of the following reasons:

- Lack of international experience
- The ownership advantages were suited to the locational advantages that were based on technology at the end of their product life cycle
- First wave investors had few transaction type ownership advantages
- They had very basic form of asset type of ownership advantages

The Ownership advantages were affected by the presence of inward looking, import substituting policy regimes among the developing countries which encouraged small scale production. The Ownership advantages of these firms were country specific, determined by the market distortions introduced by the home country policies and sustainable only where similar Locational advantages existed in other countries.

However, the trends suggest that India has entered into the second wave of investment. This could be because of the fact that the Ownership advantages of the investing firms have increased to the extent that they are able to compete with traditional MNCs in their home. Another fact to note is that India also experienced rapid economic growth during this period.

According to the "IDP", countries in stage 2 are home to firms engaging in elementary OFDI. As they acquire experience in their international operations and improve their Ownership advantages, their Locational advantages also improve over time and they engage in more OFDI. As these countries develop, they enter and progress through stage 3 of the IDP: i.e. these countries gain further experience in international business activities and develop competitive advantages that can be exploited in the overseas market. It is interesting to note that many first wave countries have remained in stage 2 and have seen no improvement in their locational advantages (Hikino and Amsden, 1994). Conversely India has shown rapid economic growth. This has been further enhanced by direct results of globalization. These changes, from India's perspective can be of two types:

a. External changes
b. Internal changes

The external changes have manifested in the Indian economy converging with the developed countries rather than diverge, as a result of which there have been two effects on the converging country:

- Firms in the domestic market are presented with larger markets leading to large economies of scale
- Technology has also converged in a way that firms in some sectors are competing with other firms in the same country in the same or different industries

The internal changes have been related with the actions and policies of the government. The main change has been change in the policies of the country from import substitution role to an export oriented look.

The motives for OFDI from India differ across industries and over a period of time. However, certain factors stand out as the main drivers.

1. The increasing numbers of home grown Indian firms (e.g., Tata Group, Ranbaxy, and Infosys) and their improving Ownership specific advantages, including financial capability are among the main drivers. In addition the growing competitiveness of the Indian firms involved in providing outsourced business and IT services to foreign clients has proved a push for these firms themselves to go offshore to operate near their clients and to expand their growth opportunities in markets abroad. The success of the Indian firms as service providers in the outsourcing of IT services, BPO and call centers by developed country companies has exposed them to knowledge and methods for conducting international business and induced FDI through demonstration and spill over effects.
2. Indian firms are investing abroad to access foreign markets, production facilities and international brand names.
3. Access to technology and knowledge has been a strategic consideration for Indian firms seeking to strengthen their competitiveness and to move up their production value chain.
4. Securing natural resources is becoming an important driver for Indian OFDI.

More broadly , Indian firms are increasingly subject to the same forces that increasingly shape firm behaviour; competition through imports, inward FDI, licensing, franchising, etc is everywhere in the globalizing world economy. Indian firms like their developed countries counterparts need to develop a portfolio of Locational assets as a source of their international competitiveness.

REGULATORY FRAMEWORK FOR OUTWARD FDI

Improvements in the regulatory framework and encouragement by the Government have played an important role in the increase in Indian Investment abroad. Initial liberalization of Indian policy towards OFDI was made in the early nineties. However, significant policy changes since 2000 have contributed to the recent rapid growth of the Indian OFDI flows.

SELECTED SIGNIFICANT INDIAN OVERSEAS INVESTMENT POLICY CHANGES SINCE 2000

1. Indian companies can make overseas investment by market purchases of foreign exchange without prior approval of the RBI up to 100 percent of their net worth, up from the previous limit of 50 percent.
2. An Indian company with a proven track record is allowed to invest up to 100 percent of its net worth within the overall limit of US$ 100 million by way of market purchases for investment in a foreign entity engaged in any bona fide business activity starting fiscal year 2003-04. The provision restricting overseas investment in the same activity as its core activity at home of the Indian company is removed. Listed Indian companies, residents and mutual funds are permitted to invest abroad in companies listed on a recognized stock exchange and in company which has the share holding of at least 10 percent in an Indian company listed on a recognized stock exchange in India.
3. The annual limit on overseas investment has been raised to US$100 million, up from US$50 million and the limit for direct investment in South Asian Association for Regional Cooperation countries excluding Pakistan and Myanmar has been raised to US$ 150 million up from US$ 75 million; for rupee investment in Nepal

and Bhutan the limit has been raised to Rs. 700 crores up from Rs. 350 crores under the automatic route.

4. Indian companies in Special economic zones can freely make overseas investment up to any amount without the restriction of the US$100 million ceiling under the automatic route, provided the funding is done out of the Exchange earners Foreign Currency Account balance.
5. The three years profitability condition requirement has been removed for Indian companies making overseas investment under the automatic route.
6. Overseas investments are allowed to be funded up to 100 percent by American Depository receipts, General depository receipt proceeds, up from the previous ceiling of 50 percent.
7. An Indian party which has exhausted the limit of US$100 million may apply to the RBI for a block allocation of foreign exchange subject to such terms and conditions as be necessary.
8. Overseas investments are opened to registered partnerships and companies that provide professional services. The minimum net worth of Rs. 150 million for Indian companies engaged in financial sector activities in India has been removed for investment abroad in financial sector.
9. During fiscal year 2003-04 the policy in Indian FDI abroad has further streamlined with the following change:
    a. Indian firms are allowed to undertake agricultural activities, which was previously restricted either directly or through an overseas branch.
    b. Investments in joint ventures or wholly owned subsidiary abroad by way of share swap are permitted under the automatic route.
10. In January 2004 the RBI has further relaxed the monetary ceiling on Indian companies' investment abroad. With effect from fiscal year 2003-04, Indian companies can invest up to 100 percent of net worth without any separate monetary ceiling even if the investment exceeds the US$ 100 million ceiling

previously imposed. Further more Indian companies can now invest or make acquisitions abroad in areas unrelated to their business at home.

(RBI and Ministry of Finance, "Indian Direct Investment in JVs/WOS abroad", February, 2004)

SECTION 4.3

FINDINGS AND CONCLUSIONS

OFDI from India has increased appreciably over the past decade following the reforms and liberalization of policies undertaken by the Government since 1991. OFDI has emerged as an important mechanism through which the Indian economy is integrated with the global economy, along with growing trade and inward FDI. The OFDI behaviour of Indian firms in the earlier periods of seventies and eighties was found to be limited to a small group of large-sized family-owned business houses investing mostly in a selected group of developing countries. The restrictive government policies on firm's growth followed in India seems to have pushed these firms towards OFDI. In many cases, the Ownership pattern of Indian OFDI projects was minority-owned. The joint venture nature of Indian OFDI with intermediate technologies has been found to be appropriate to the needs and requirement of fellow developing countries. The Indian OFDI policy that time was more restrictive with cumbersome approval procedures.

However, the character of OFDI has undergone significant changes since the nineties. A large number of Indian firms from increasing number of industries and services sectors have taken the route of overseas investment to expand globally. Unlike the earlier periods, Indian outward investors have gone for complete control over their overseas ventures and increasingly started investing in developed parts of the world economy. This increased quantum of OFDI from India has been led by a number of factors and policy liberalization covering OFDI has been one among them. The sharp rise in OFDI since 1991 has been accompanied by a shift in the geographical and sectoral focus. Indian companies have also diversified sectorally to focus on areas of the country's emerging comparative advantages such as in pharmaceuticals and IT software automobiles, auto-ancillary and telecom etc. Indian enterprises have also started to acquire companies abroad to obtain access to marketing

It is contended that the new wave of OFDI reflects changes in the structure of the world economy that are a result of globalization and regionalization of economic activity. These phenomena are associated with:

- Technological advances within the sectors
- Liberalization of markets
- Establishment of regional trading blocks

It is also contended that the second stage of OFDI is complementary to the first stage and simply is an intermediate stage of evolution of OFDI as the home country moves along its "IDP". Such OFDI has been a result of government assisted upgrading of location specific advantages of home country, which in turn has helped upgrade the competitive advantages of their firms. Also while these Ownership specific advantages remain primarily country–of–origin specific they are being supplemented by FDI intended to augment rather than exploit such advantages.

In light of the foregoing analysis, regarding the outward direct investment from developing countries especially India, it can be said that there has been a distinct and comprehensive change. The evidence presented here shows that the evolution of Indian OFDI is entirely consistent with the predictions of the "IDP". Each stage has been appropriate to the extent and pattern of the country's economic development.

Such a growth has been conditional on the sustained improvement of the Ownership specific advantages of the firms, resulting from a continuous up gradation of the Locational specific advantages of the home country. While improved Locational advantages are a natural consequence of economic development and restructuring as the country moves from stage 2 to stage 3, this process can be accelerated by a market oriented and a holistic government policy towards trade, industrial development and innovation. This has not only helped to upgrade its indigenous resources but has encouraged the domestic firms to augment their competitive advantages by acquiring foreign resources.

REFERENCES

1. Darel, P. (2006). "The Indian MNCs", IBEF, Indian Brand Equity Foundation, January, www.ibf.org.
2. Dunning, J.H. (1977). "Trade, Locational of Economic Activity and the MNE: A Search For An Eclectic Approach" in *The International Locational of Economic Activity* ed. by Ohlin, B. and P.O. Hesselborn: 395-418, Macmillan, London.
3. Dunning, J.H. (1981). "Explaining the International Direct Investment Position of Countries: Towards a Dynamic or Developmental Approach", *Weltwirtschaflliches Archiv* 119: 30-64.
4. Dunning, J.H. (1986). "The Investment Cycle Re Invested", *Weltwirtschaftliches Archiv* 122: 667-77.
5. Dunning, J.H. (1988). "Explaining International Production", Unwin Hyman, London.
6. Dunning, J.H. (1993). "Multinational Enterprise and the Global Economy", Workingham, Addison-Wesley, England.
7. Dunning, J.H. and R. Narula (1994). "Transpacific FDI and the Investment Development Path: the Record Accessed", *University of South Carolina Essays in International Business* 10.
8. Dunning, J.H. and R. Narula (1996). "Foreign Direct Investment and Governments: Catalyst for Economic Restructuring", Routledge, New York and London.
9. Hay, F. (2006). "FDI and Globalisation in India", *International Conference on 'the Indian Economy in the Era of Financial Globalisation'*, September 28-29, Paris.
10. Hikino, T. and A. Amsden (1994). "Staying Behind, Stumbling back, Sneaking up, Soaring Ahead: Late Industrialization in Historical Perspective, in

Convergence of Productivity: Cross Country Studies and Historical Evidence ed. by Baumol, W. , R. Nelson and E. Wolff, Oxford University Press, New York.

11. ICICI research centre.org-EPWRF Data Base Project
12. Indian Institute of Foreign Trade/IIFT (1977) "India's Joint Ventures Abroad", New Delhi.
13. Kumar, N. (1998). "Emerging Outward Foreign Direct Investments from Asian Developing Countries: Prospects and Implications", Routledge, London.
14. Kumar, N. (2004). "India" in '*Managing FDI in a Globalizing Economy: Asian Experiences*', ed. by Douglas H. Brooks and Hal Hill, New York: Palgrave Macmillan for ADB: 119-52.
15. Kumar, N. and Dunning, J. (1998). "Globalization, Foreign Direct Investment, and Technology Transfers: Impacts on and Prospects for Developing Countries", Routledge, London and New York.
16. Lall, R.B. (1986). "Multinationals from the Third World: Indian Firms Investing Abroad", *Delhi*, Oxford University Press.
17. Lall, S. (1983). "Multinationals from India" in *The New Multinationals: The Spread of Third World Enterprises ed.* by S. Lall, John Wiley & Sons, New York.
18. Ministry of Finance, Department of Economic Affairs, Government of India, http://finmin.nic.in.
19. Narula, R. (1993). "Technology, International Business and Porter's 'Diamond': Synthesising a Dynamic Competitive Model", *Management International Review*, special issue 2.
20. Narula, R. (1995). "R&D Activities of Foreign Multi-Nationals in the U.S", *International Studies of Management and Organisation* 25(12): 39-73.
21. Pradhan, J. (2007). "Growth of Indian Multinationals in the World Economy: Implications for development", *Working paper no. 2007/04*, Institute for Studies in Industrial Development, New Delhi.

22. Pradhan, J. P. (2005). "Outward Foreign Direct Investment from India: Recent Trends and Patterns", *GIDR Working Paper, No. 153*, February.

23. Pradhan, J. P. and Abraham, V. (2005). "Overseas Mergers and Acquisitions by Indian Enterprises: Patterns and Motivations", *Indian Journal of Economics* 338 : 365-386

24. Ranganathan, K.V.K. (1990). "Export Promotion and Indian Joint Ventures, published Ph.D. thesis, Kurukshetra University, India.

25. RBI (2006). Reserve Bank of India, www.rbi.org.in

26. RBI Bulletin (2008). Reserve Bank of India.

27. Thornton G. (2006) http://www.gt india.com/downloads/DealtrackerAnnual_06.pdf site

28. WIR (1995). "Trans National Corporations and Competitiveness", *World Investment Report,* UNCTAD, United Nations, Geneva..

29. WIR (2004). "The Shift Towards Services', *World Investment Report, Geneva,* UNCTAD, United Nations, Geneva..

30. UNCTAD (2004). "India's Outward FDI: A Giant Awakening?" *UNCTAD/DITE/IIAB/2004/1,* October 20.

31. WIR (2005). "TNCs and the Internalisation of R&D", *World Investment Report,* UNCTAD, United Nations, Geneva..

32. WIR (2007). "Transnational corporations, Extractive Industries and Development", *World Investment Report,* UNCTAD, United Nations, Geneva.

33. UNCTAD (2005). "Outward Foreign Direct Investment by Indian Small and Medium-Sized Enterprises", Case study, *Trade and Development Board, Commission on Enterprise, Business Facilitation and Development Expert Meeting on Enhancing Productive Capacity of Developing Country Firms Through Internationalization,* December 5-7 , Geneva.