Outward FDI from India - A Giant Awakening

***Dr. J. Sulaiman**

*Assistant Professor, PG & Research Department of Commerce, The New College, Chennai.

INTRODUCTION

Foreign Direct Investment (FDI) has become the heart of globalization of the world economy and the global economic integration is deemed the basic tenet of nation's development strategy since 1990s. FDI is an essential component of every nation's efforts toward economic development. The success of any nation in attracting foreign investment is directly proportional to that nation's resources and the existence of lucrative investment opportunities. The role of foreign direct investment (FDI) in the economic development is very crucial as it creates new jobs, provides skilled technical and managerial labour and transfers the technology. Over the last three decades, industrialization has been much faster as compared to 1950s and 1960s due to active participation of MNEs at international level. Multinationals corporations are reckoned as vehicles for providing new technology, productive capacity, knowledge transfer, natural resources and managerial skills. They generate spillover effects that help the domestic enterprises to increase their ownership advantages.

OBJECTIVE AND METHODOLOGY

The inward and outward flows of foreign direct investments in India have reached a historic high in the recent past. Outward FDI (OFDI) benefits are ultimately linked to international economic integration which, in turn, has resulted in rising per capita incomes in developed home economies due to their complementary relationship between FDI and trade. The primary aim of this paper is to examine outward foreign direct investment from India. This study has exclusively used secondary data. The paper is structured as follows. The following section surveys the global trend in outward FDI, the third section provides outward FDI performance of India, the fourth section presents the major merger and acquisition deals of India incorporation and the final section concludes.

GLOBAL TREND IN OUTWARD FDI (OFDI)

A number of economies have seen an improvement in their outward FDI performance over the past 15 years. The faster growth of outward FDI indicates that their enterprises are building ownership advantages rapidly and/or are increasingly choosing to exploit their advantages by establishing operations in foreign locations. Global FDI outflows in 2009 declined by 39 per cent to $1,171 billion mirroring the trend in inflows. The global economic and financial crisis continued to weigh on FDI outflows from developed countries for the second year in a row. In addition, it started to affect outflows from developing and transition economies.

TABLE 1: GLOBAL FDI OUTFLOWS – BY REGION 2005-2009

Region	**FDI outflows** (Billions of dollars)				
	2005	**2006**	**2007**	**2008**	**2009**
World	881	1323	2268	1911	1171
Developed economies	749	1087	1924	1572	821
Developing economies	118	212	292	296	229
Africa	2	8	11	10	5
Latin America &Caribbean	36	83	56	82	47
West Asia	12	23	47	38	23
South, East & South-East Asia	67	118	178	166	153
South-East Europe and the CIS	14	24	52	61	51

Source: UNCTAD, FDI/TNC database

FDI outflows from developed country TNCs were almost halved in 2009 (Table 1). The share of developing countries in global FDI outflows rose to 21 per cent, while those of transition economies, although small, maintained their upward trend to 5 per cent. Within the developing countries, outflows from South, East and South-East Asia have been particularly noteworthy, accounting for 14 per cent of global outflows in 2009. Outflows from developing countries amounted to $229 billion in 2009, a fall of 23 per cent over the previous year, marking the end of a five-year upward trend. However, in 2010 it has increased to $328 billion. As a result, developing and transition economies further strengthened their global position as emerging sources of OFDI, increasing their share to 25 per cent compared to 19 per cent in 2008. It is evident that the financial crisis and economic downturn have both reduced the capability and propensity of firms to invest. The crisis has created a climate of widespread concern about global risks and uncertainty.

OUTWARD FDI PERFORMANCE OF INDIA

In recent years, overseas investment by Indian firms has attracted attention as an important aspect of increasing global economic integration of the Indian economy. Initial liberalization of Indian policy towards outward FDI were made in the early 1990s. However, significant policy changes since 2000 contributed to the recent rapid growth of Indian outward FDI flows. India has become the world's 21st largest outward investor (UNCTAD's 2011). Indian firms are also amongst those that have been investing since many years but their immense growth at international level occurred especially after late 1990s (Sauvant).

During the restricted phase (pre-1990), home as well as many of the host countries with regard to Indian MNEs imposed restrictions that gave these firms less chances to grow at international level. Indian firms investing abroad during the restricted phase were mostly conglomerates (Lall, 1982) competing into those sectors that required simple technology, low product differentiation and more labour intensive techniques but they have worked in the developing countries more efficiently than the developed countries. During the liberalized phase (after 1990s), continual industrialization in the domestic market, experience attained from home and abroad, financial relaxation and local government supports paved the way for Indian MNEs to invest globally. They not only invested into developing countries but their OFDI share into developed countries also increased after 1990s so much so that India has ranked herself 7th in UK during 2003-04 in terms of creation of job vacancies and number of projects initiated through FDI and similarly Indian OFDI is ranked 13th in France in terms of commencing projects into the country (UNCTAD 2004).

TABLE: 2 INDIA'S FDI OUTFLOWS

(US $ million)

YEAR	OFDI	OFDI stock
1990	1657	124
2000	16339	1733
2010	197939	92407

UNCTAD AVIR2011

Indian multinationals have been investing vigorously at international level and their growth in the world economy can be rationalized from total numbers of Indian firms, outward stocks & flows. The total number of host countries in the case of Indian OFDI that was 37 before 1990s has increased to 128 in 2006 and further increased to 372 in 2011 (RBI). The stocks of Indian OFDI have also increased to $92407 million from just $ 124 million in 1990. The percentage increase of Indian OFDI stocks is standing at 2nd highest position among emerging countries and this increase is even more than that of developed countries, like Austria, Greece, Ireland and some other developing countries.

TABLE: 3 OUTWARD FDI FROM INDIA FOR THE PERIOD APRIL 2007 TO NOVEMBER 2011

(Figures in US $ Million)

Period	Financial Commitment			
April March	Equity	Loan	Guarantee Issued	Total
2007-2008	11269.18	2718.02	6959.96	20947.16
2008-2009	10732.26	3329.00	3104.88	17166.14
2009-2010	6763.27	3620.19	7603.79	17987.25
2010-2011	9351.77	7346.89	27230.52	43929.18
April to Nov 2011	4631	6388.7854	12798.475	23818.26

Source: RBI

Indian outward FDI in general continues to increase. According to data released by RBI, outward FDI by Indian corporate in 2010-11 included $9.3 billion in the form of equity, $7.3 billion in loans and $27.2 billion in the form of guarantees (Table:3). Outward FDI during 2007-08 was more than twice the amount ($20.9 billion) invested by India Inc in the pre-crisis year of '07-08. Post crisis, outward FDI dipped to $ 17 billion for the next two years before soaring to a record high of $43 billion in 10-11 with most of the outgo being in the form of guarantees to offshore investment companies. The global crisis caused Indian OFDI flows to fall from their high in 2007, largely because Indian MNEs had borrowed heavily in dollars to finance mega cross-border M&As.

MOTIVES FOR OUTWARD FDI

The motives for outward FDI from India differ across industries and over time. However, certain factors stand out as the main drivers. The increasing number of home-grown Indian firms (e.g. Tata Group, Infosys, and Ranbaxy) and their improving ownership-specific advantages, including financial capability, is among the key drivers. In addition, the growing competitiveness of Indian firms involved in providing outsourced business and IT services to foreign clients has provided 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, Indian firms as service providers in the outsourcing of IT services, BPO and call centers the companies in developed countries has exposed them to knowledge and methods for conducting international business, and induced outward FDI through demonstration and spillover effect. Indian firms are investing abroad to access foreign markets, production facilities and international brand names. For instance, Tata Tea acquired Tetley Tea for access to the Tetley brand name and market. 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. In 2003, WIPRt) acquired Nerve Wire Inc (United States) to gain deep domain knowledge and other IT related benefits, including access to markets. Reliance Infocomm bought Flag Telecom (United Kingdom) to access to the undersea cable network and connect with key regions such as Asia, Europe and the United States. Given the continuing difficulty in acquiring large tracts of land for agricultural purposes and the growing resistance to large mining projects in India, securing natural resources is becoming an important driver for Indian outward FDI. For instance, Hindalco acquired two copper mines in Australia and Oil and Natural Gas Commission (ONGC) Ltd, to secure the supply of resources. FICCI (2006) has identified a number of motives including access to foreign technology, sourcing of raw materials, and aspirations for global leadership. Market access considerations were particularly important for the pharmaceutical and automotive sectors. Many of the large takeovers in the metal and metal products industries were intended to reinforce the global "competitiveness of the investing firms rather than to exploit their existing set of advantages. Indian outward FDI in IT and Software services are expected to grow rapidly. Countries such as Belgium, Canada, China, Japan and United Kingdom have been courting Indian IT companies to invest in their shores. The growing competitiveness of Indian firms and their increasing desire to venture abroad to expand markets, operate near to clients and acquire technology and brand names are key drivers pushing more Indian firms to go abroad. India's membership in various regional integration arrangements Free

Trade Agreement, South Asia Free Trade Area (SAFTA), Indian Ocean Rim Association for Regional Cooperation, Indo-Lanka Free Trade Agreement and the imminent ASEAN-India FTA will also provide Indian firms with a favorable platform to strengthen their presence in these partner economies. Not least, the encouragement and the significant liberalization of policies by the Government of India will continue to play an instrumental role in the rapid expansion of Indian firms abroad.

CONCLUSION

The sectoral and regional distribution of Indian outward FDI is broadening. The liberalization of such sectors as medical services, defense and education is prompting Indian firms to explore overseas acquisitions to build both domestic strength and global presence. It can also be expected that foreign investments in the natural resource sectors will surge, given the continuing difficulty in acquiring large tracts of land for agricultural purposes and the growing resistance to large mining projects in India. India is now the world's 13th largest FDI host country and world's 21st largest outward investor with an investment of over US$ *15* billion across the world over the past decade, which is significant given its historically minuscule foreign direct investment (FDI) outflows. Substantial improvements in the country's economic performance and the competitiveness of its firms and their strategy, resulting from ongoing liberalization in economic and outward FDI (OFDI) policies, made these developments possible. Indian firms now invest across a wide variety of sectors and countries, departing from their historical focus on trading and textile investments in developing countries. Following the crisis-induced drop in Indian OFDI in 2009, Indian firms are once again increasing their overseas investment, including through mergers and acquisitions (M&As). India's OFDI should continue its rapid upward trend over the next decade, as more companies seek to transfer their products and service innovations to new markets, and acquire strategic international know-how and market shares, particularly in crisis-hit developed economies. Taking the case of the Indian multinationals, it is concluded that liberalization of Indian economy and globalization has shifted the direction and location of investment such that Indian firms are investing more in the developed economies as compared to developing ones. Government should support rather than discourage their firms in overseas expansion because such expansions will increase home country exports and provide parent firm's cheaper raw material through backward FDI.

REFERENCES

Dunning and Narula (1994), World Investment Report, pp 237.

Hansen, Michael W., "Outward foreign direct investment from India: theory and evidence," CBDS Working Paper No.8.

Indian School of Business and Vale Columbia Center on Sustainable International Investment, "The growth story of Indian multinationals" (New York, 2009).

Lall, S. 1982a. *Developing Countries as Exporters of Technology: A First Look at the Indian Experience.* London: Macmillan, pp 31.

Price water House Coopers, "Emerging multinationals," April 2010.

Sauvant, Karl P. and Jaya Prakash Pradhan, with Ayesha Chatterjee and Brian Harley, eds., *The Rise of Indian Multinationals: Perspectives on Indian Outward Foreign Direct Investment,* New York: Palgrave, 2010.

Steven Globerman & Daniel Shapiro, *Outward FDI and the Economic Performance of Emerging Markets,* International Conference on the Rise of TNCs From Emerging Markets: Threat or Opportunity? Columbia University, New York, October 24-25, 2006.