

*Outward Investment from India:
Developments and Implications*



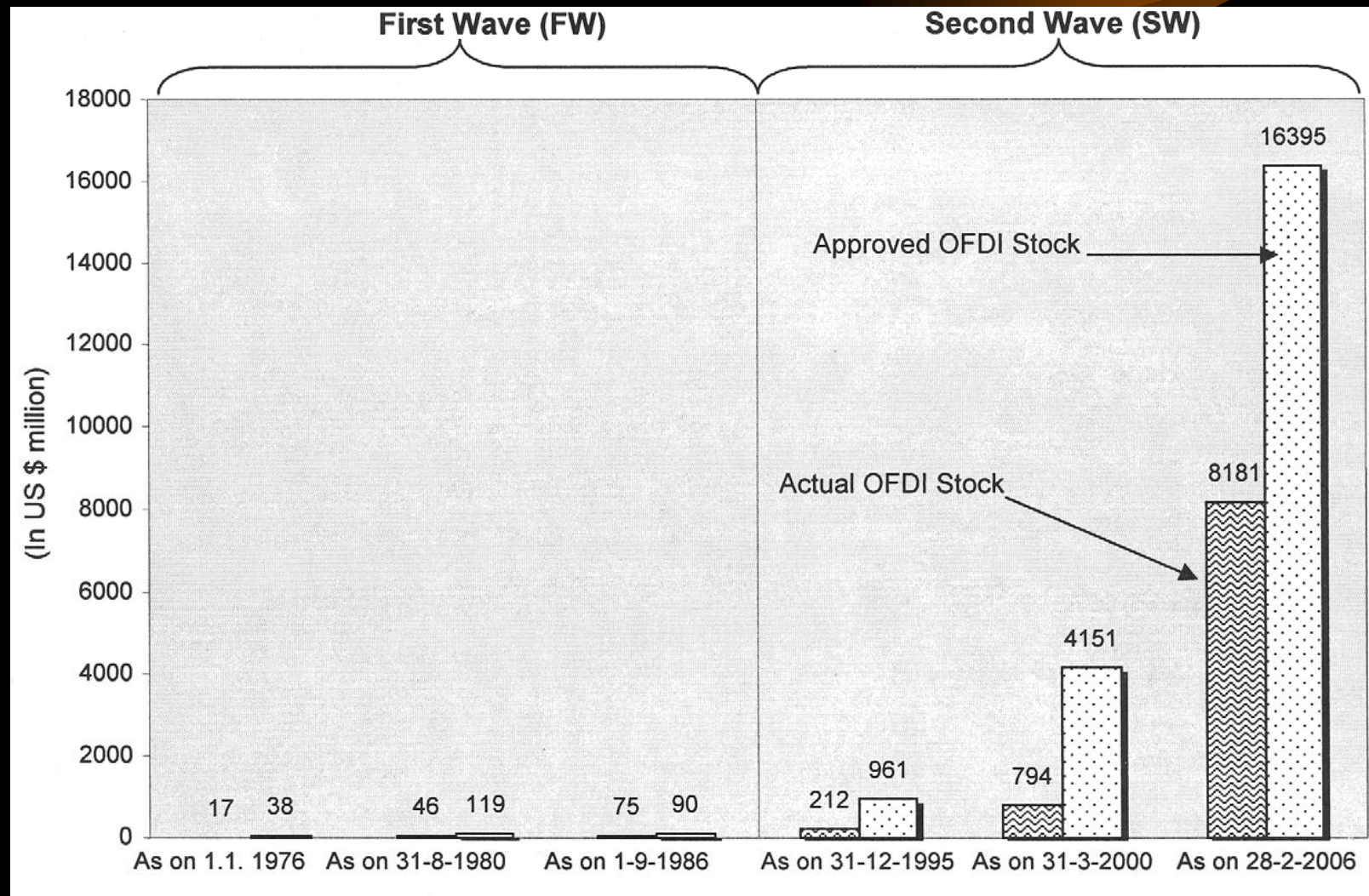
Jaya Prakash Pradhan

Institute for Studies in Industrial Development
New Delhi

Trends and Patterns of Indian OFDI

- **Origin:** Early 1960s with the establishment of a textile factory by Birla group at Addis Ababa, Ethiopia in 1960 and an assembly plant for sewing machines by Shriram group at Ratmalana, Sri Lanka in 1962.
- **Developments in Indian OFDI Flows**
 - Two Waves Hypothesis: The wave of Indian OFDI since 1990s (Second Wave) is different from that in the pre-1991 periods (First Wave).

Figure: Indian OFDI Stock (In \$ million), 1976 to 2006



Regional Composition of Indian OFDI

- **First Wave:** Developing countries were the major hosts, accounting for about 90 per cent of the OFDI stock in 1976 and 96 per cent in 1986.
 - South East Asia, West Africa, East Africa respectively claimed 52 per cent, 20.8 per cent and 14 per cent in OFDI stock at 1986.
 - Malaysia, Indonesia, Kenya, Thailand, Singapore, and Nigeria were the most preferred destinations for Indian OFDI during the FW.
- **Second Wave:**
 - Geographically more diversified with the number of host countries increased from 37 in the FW to 128 in the SW.
 - Developed region received increased focus with its share which was less than 2 per cent in 1986 has gone up to above 30 per cent share of total OFDI stocks in 2000 and 2006.
 - In 2006, USA and UK respectively claimed about 15 and 6 per cent of India's OFDI stock.

Regional Distribution of OFDI

Distribution of Indian OFDI Stock by Host Regions, 1976 to 2006 (In Per Cent)

<i>Host region/economy</i>	<i>First Wave (FW) As on</i>			<i>Second Wave (SW) As on</i>		
	<i>01-08-1976</i>	<i>31-08-1980</i>	<i>31-07-1986</i>	<i>31-12-1995</i>	<i>31-03-2000</i>	<i>28-02-2006</i>
Developed economies	10.12	5.02	1.61	40.80	29.62	32.17
Europe	5.41	1.89	1.18	26.80	16.82	13.54
European Union	5.41	1.88	1.15	25.69	16.19	12.75
Other developed Europe	-	0.00	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	50.50
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	9.80
West Africa	1.42	15.17	20.81	0.62	0.85	0.41
Central Africa	-	-	-	-	-	0.00
East Africa	22.43	13.52	14.06	6.90	7.55	9.15
Southern Africa	-	0.05	-	0.23	0.55	0.23
Latin America and the Caribbean	-	-	-	1.75	23.39	10.40
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	19.70
West Asia	5.74	5.44	3.46	18.09	12.13	5.25
South, East and South-East Asia	59.15	58.50	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	48.90	52.12	14.51	7.17	7.39
Oceania	1.14	0.12	0.60	0.01	0.00	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	100.00	100.00	100.00	100.00	100.00	100.00
Memoranda						
No. of host countries	22	37	35	84	128	127

Sectoral Distribution of OFDI

Sectoral Composition of Indian OFDI Stock and Cumulative Flows in \$ Million

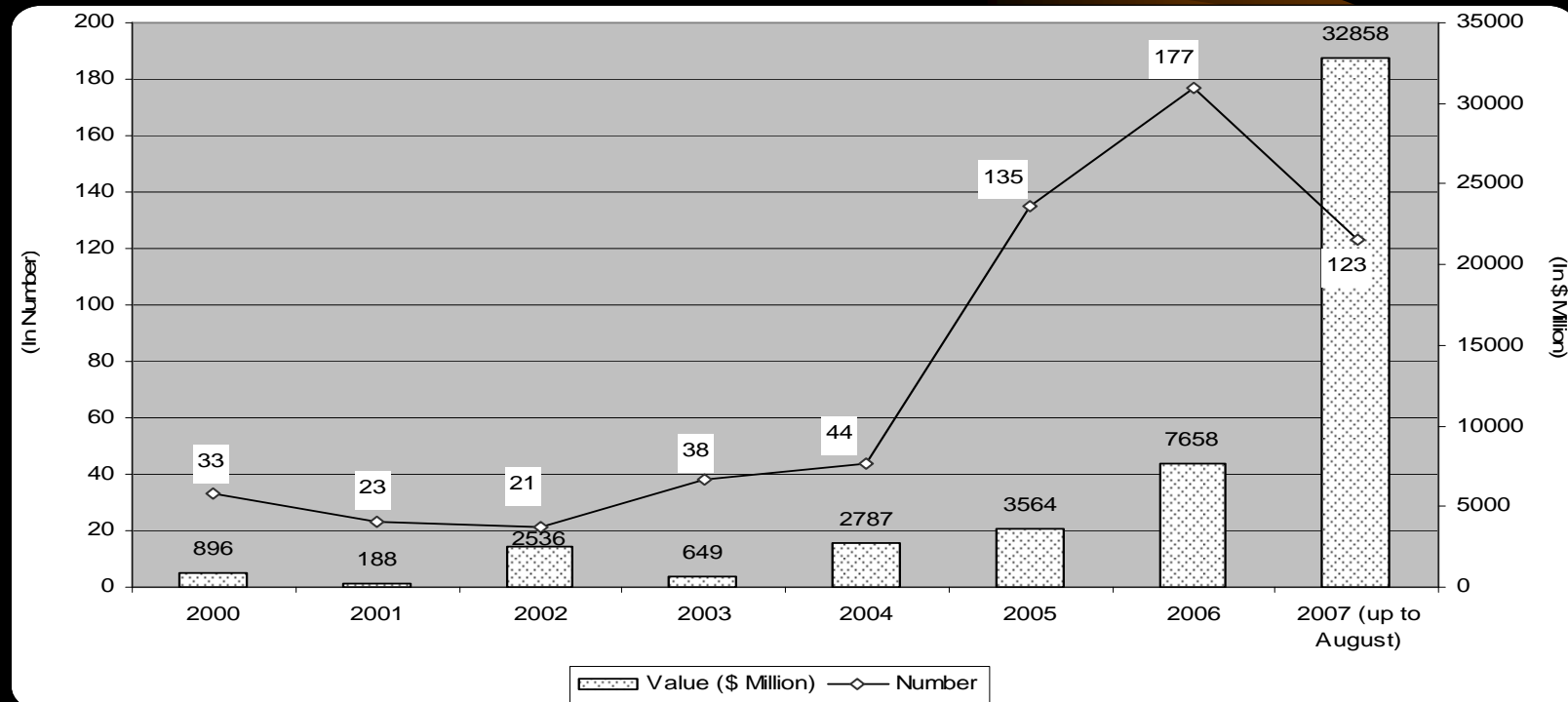
<i>Sector</i>	<i>First Wave (FW)</i>		<i>Second Wave (SW)</i>	
	<i>OFDI Stocks An on</i>			<i>Cumulative OFDI Flow:</i>
	<i>31.08.1980</i>		<i>1987</i>	<i>1990-00 to 2005-06 (February)</i>
	<i>Approved</i>	<i>Actual</i>	<i>Actual</i>	<i>Approved</i>
Natural Resource based	2.83 (2.4)		0.44 (0.6)	
Exploration of minerals and petroleum	2.83 (2.4)		0.44 (0.6)	
Manufacturing	97.31 (81.7)	43.08 (93.8)	62.05 (85.4)	8090 (58.1)
Food and food processing	5.49 (4.6)	1.66 (3.6)	4.58 (6.3)	NA
Textiles, leather and rubber products	30.77 (25.8)	13.16 (28.7)	14.40 (19.8)	NA
Pulp and paper	21.38 (18.0)	6.72 (14.6)	9.99 (13.8)	NA
Non-metallic mineral products	1.65 (1.4)	0.78 (1.7)	3.47 (4.8)	NA
Oil seeds crushing, refining and fractionation	12.42 (10.4)	8.94 (19.5)		NA
Iron and steel products	1.79 (1.5)	1.50 (3.3)	0.24 (0.3)	NA
Chemicals and Pharmaceuticals	3.65 (3.1)	2.10 (4.6)	13.14 (18.1)	NA
Light engineering	20.15 (16.9)	8.22 (17.9)	16.23 (22.3)	NA
Services	15.61 (13.1)	1.81 (3.9)	10.13 (14.0)	5281 (37.9)
Non-financial services including trading	15.61 (13.1)	1.81 (3.9)	7.26 (10.0)	4998 (35.9)
Financial			0.84 (1.2)	283 (2.0)
Other services			2.03 (2.8)	
Miscellaneous	3.34 (2.8)	1.02 (2.2)		558 (4.0)
Total	119.09 (100)	45.91 (100)	72.62 (100)	13929 (100)

Ownership Pattern of Indian joint ventures and subsidiaries abroad

<i>Equity Range (%)</i>	<i>First Wave (FW)</i>				<i>Second Wave (SW)</i>		
	1982		1987		<i>Equity Range (%)</i>	1991–March 2001	
	<i>Number</i>	<i>Per cent</i>	<i>Number</i>	<i>Per cent</i>		<i>Number</i>	<i>Per cent</i>
Less than 10	6	4.4	29	18.4			
10–25	29	21.3	28	17.7			
25–40	28	20.6	25	15.8	Less than 20	41	2.6
40–50	42	30.9	40	25.3	20–50	230	14.4
50–75	25	18.4	28	17.7	50–80	211	13.2
75 and above	6	4.4	8	5.1	80 and above	1119	69.9
Total	136	100	158	100	Total	1601	100

New Forms of OFDI

- Pre-1990s, OFDI projects are largely greenfield type.
- Since late 1990s, OFDI has been increasingly taking the brownfield form.



- Manufacturing accounts for 47.5% of total numbers and 75% of total value; followed by services with 44.9% and 12% and primary sector with 5.7% and 12% correspondingly.
- Pharmaceuticals (30.85%), transport equipment (15%), chemicals (14%) are major acquirers within total number of manufacturing sector acquisitions.
- IT & ITES (84%), media & entertainment (5%), telecommunication services (3.4%) are main acquirers within total number of service sector acquisitions.
- Largely oriented to developed region (76% of total number of acquisitions). The share of developing region is 20%.

Firm Size Diversification

OFDI Stock by Firm Sizes, As on March 31, 2001

<i>Sectors</i>	<i>Firm Size</i>					
		<i>Small</i>	<i>Medium</i>	<i>SMEs</i>	<i>Large</i>	<i>Total</i>
Manufacturing	No.	23 (3.08)	172 (23.06)	195 (26.14)	551 (73.86)	746 (100)
	Value	5 (0.32)	99 (6.37)	104 (6.69)	1450 (93.31)	1554 (100)
Software	No.	16 (5.44)	105 (35.71)	121 (41.16)	173 (58.84)	294 (100)
	Value	10 (1.16)	396 (46.10)	405 (47.15)	454 (52.85)	859 (100)

•Note: (1) The size classification of firms in an industry is done based on the average sales of firms over 1991-2001: if sales \leq 25 percentile then small size (Up to 25 percentile); 25 percentile $<$ Sales \leq 75 percentile then medium size (25-75 Percentile); Sales $>$ 75 percentile then large size (Above 75 Percentile).

(2) 107 small firms, 165 medium firms and 132 large firms

Changing Motivations

First Wave	Second Wave
<ul style="list-style-type: none">● To seek additional market for growth in face of domestic constraint on firm growth● To diversify business risks geographically to cordial host developing countries under the regime of ‘south-south’ co operation● Ownership-specific advantages were not that sophisticated but confined to reverse engineering and unique adaptive capabilities to reproduce foreign technologies suitable to local conditions existing in developing countries	<ul style="list-style-type: none">● Traditional motivation of market access● To develop trade-supporting networks abroad● To exploit ownership advantages in efficient manner● To use OFDI in brownfield form to acquire additional technologies, skills, management expertise, marketing distribution networks overseas● To secure natural resources like natural gas and petroleum

OFDI Policy Regime

- India's OFDI Policy Regime has evolved in two distinct phases:
 - Restrictive attitude towards OFDI (1978-1992)
 - Liberal attitude towards OFDI (1992 onwards)

Salient features of different phases of OFDI policy

	<i>Phase I: 1978–1992</i>	<i>Phase II: 1992–onwards</i>
Policy Objectives	<ul style="list-style-type: none"> • Promoting Indian OFDI as a tool of south-south cooperation • Maximizing economic gains (mainly exporting of machinery and know-how) from OFDI at minimum foreign exchange costs • Permission only for minority-owned joint ventures (JVs) 	<ul style="list-style-type: none"> • Promoting OFDI as a tool of global competitiveness • Maximizing exporting from India, acquiring overseas technology, gaining insider status in emerging trading blocs, etc.
Strategies	<ul style="list-style-type: none"> • Permission only for minority-owned joint ventures (JVs) • Overseas JVs must be in the same line of business activity 	<ul style="list-style-type: none"> • Removal of ownership restriction in overseas ventures • OFDI can be in any bonafide business activity
	<ul style="list-style-type: none"> • Equity participation should be through exports of Indian made capital equipments and technology • Capitalization of export of second-hand or reconditioned machinery against foreign equity is prohibited • Cash remittances, except in deserving cases, are normally not permitted 	<ul style="list-style-type: none"> • Foreign equity participation normally is allowed through cash transfer along with the usual way of capitalization of exports of plant, machinery, and know-how. • Equity participation through export of second-hand or reconditioned machinery is permitted • Equity participation through ADR/GDR route is allowed
	<ul style="list-style-type: none"> • Overseas JVs must be in the same line of business activity 	<ul style="list-style-type: none"> • OFDI can be in any bonafide business activity

Developmental Issues for India

OUTWARD FOREIGN DIRECT INVESTMENT

Impact on Indian Economy

