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GROWTH OF INDIAN MULTINATIONALS IN THE WORLD ECONOMY
Implications for Development

Jaya Prakash Pradhan[*]

*[**Abstract:** The importance of Indian multinationals in the world economy has been growing significantly since 1990s. An increasing number of Indian firms across wide range of sectors are undertaking large overseas projects and their focus is gradually shifting towards developed countries. Until then, OFDI from India was confined to a small number of family-owned firms primarily investing in developing countries through joint-ownership arrangement. These changing natures of Indian OFDI are likely to have a number of implications for the development of both host and home country. This study had explored some of these issues relating to the growth of Indian multinationals.]*

Keywords: *Multinationals; Outward FDI.*
JEL Classifications: *F14; F23.*

1. Introduction

The emergence of Indian multinationals as developing country competitors to global corporations based in developed countries is one of the key features of the global production system originating from so-called third-world economies (TWEs) in the 1990s. The outward investment activities of Indian multinationals have grown rather sharply since 1990s (UNCTAD, 2004, 2005, 2006; Pradhan, 2005; Sauvant, 2005). Between 1991 and 2003 the number of outward investing Indian companies has grown at a rate of 809 per cent from 187 to 1700. This growth rate is higher than the rate at which numbers of domestic firms investing abroad have grown in countries like China (805 per cent), Republic of Korea (611 per cent), Brazil (116 per cent) and Hong Kong (90 per cent) over approximately comparable periods (UNCTAD, 2006, Table III.13, p. 122).

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With the adoption of an outward looking development strategy in 1991, Indian enterprises have been quickly learning and mastering the rules of the global market and their business framework is ever more based on the consideration of trans-border business opportunities. Under the increasing process of globalization unleashed by liberalization in external trade and investment regimes and the progressive liberalization of internal economic policies, Indian firms across different sizes are expanding their business operations into overseas market. Apart from the traditional export activities, this trans-border expansion of Indian firms is taking place via establishing overseas subsidiaries and acquiring productive entities abroad. In the period preceding 1990s, much of the overseas investment activities from India were led by a small group of family-owned large business conglomerates largely focusing on neighbouring developing countries (Pradhan, 2005). Since 1990s a large number of non-family owned as well as small and medium sized Indian firms are resorting to outward investment as an important internationalization strategy (Pradhan and Sahoo, 2005). Indian firms irrespective of ownership and sizes have been realizing that market cannot be local under a globalized policy regime and that their survival would depend on their ability to capitalize the opportunities offered by a global market.

In the period covering 1970s to 1991, the outward investment by Indian companies usually evoked two types of policy perceptions—(i) such investments are viewed as India's contribution to the 'south-south' cooperation where Indian multinationals are visualized to play a constructive role in the development of host southern regions in non-exploitative and mutually beneficial ways unlike the developed country multinationals and (ii) they are also conceived as a vehicle of promoting Indian exports in the form of Indian-made machinery, raw materials, know-how and consultancy. During 1990s a more favourable approach towards outward investment was adopted and policy makers generally interpreted such investment as a tool of global competitiveness for Indian companies (Pradhan and Sahoo, 2005). In addition to helping Indian firms to acquire new knowledge, technology, competent business practices and other firm-specific intangibles, outward investment assists them to strengthen their trade-supporting infrastructure overseas leading to higher exports from the home country.

The transformation of Indian firms into global entities can affect both the home and host country in several ways. These influences encompass several dimensions ranging from output, employment, trade, cultural and political processes of these countries. Therefore, the emergence of Indian multinationals demands a better understanding about their activities—motivations underlying their trans-border expansion, sectoral and geographical composition of their global presence, modes of market entry and types of

strategies adopted, etc. In this paper we shall address some of these issues. Section 2 provides an overview of the broad patterns of Indian outward FDI (OFDI) as derived from the stocks and flows investment data of OFDI. Section 3 discusses the evolution of regulatory frameworks in India towards OFDI. Different aspects of Indian multinationals that can affect the development processes of both the host developing and developed countries are examined in Section 4. It also focuses on developmental implications of Indian multinationals for the home country. Section 5 contains some concluding remarks.

2. Growth and Structure of Indian OFDI

The patterns of change in Indian OFDI since the early 1970s are well-known in the literature (Pradhan, 2003, 2004a, 2005). In terms of growth trends the 1990s represents a structural period in the emergence of Indian OFDI with an absolute upward shift in the quantum of outward investment, numbers of approved OFDI applications and numbers of outward investing Indian firms. Hence, the concept of 'Two Waves' is more appropriate for describing and analyzing the evolution of OFDI activities by Indian enterprises. Pradhan (2005) and Pradhan and Sahoo (2005) have emphasized that Indian OFDI has undergone long-term transformations in its character covering industrial structure, geographical composition, ownership controls, entry modes, motivations, and sources of financing the cross-border investments. In the present analysis, the period from 1970s to 1991 represents the First Wave (FW) of Indian OFDI and its Second Wave (SW) is symbolized by the period from 1991 onwards.

2.1. Size and Growth

The role of cross-border direct investment as a key strategy for the internationalization of Indian firms during the FW was quite limited. The low levels of OFDI activities that existed during that period was confined to a small group of large family-owned business houses like Birla, Tata, Kirloskar, Thapar, Mafatlal, JK Singhania, Mahindra, etc (Ranganathan, 1990). As a result, the stock of Indian OFDI as on 1st January 1976, measured in terms of number of approvals, was estimated at just 133 and involved about \$38 million worth of approved investment of which a meager amount of \$17 million had been actually invested abroad (Table-1). The initial impressive growth momentum witnessed in the Indian OFDI stock and number of OFDI approvals between 1976 and 1980 could not be sustained during 1980–86. By any comparison with other outward investing developing countries, India's approved OFDI stock of \$90 million in 1986 stand poorly. Developing countries like Brazil with an OFDI stock of \$39583 million, Taiwan with \$13336 million, South Africa with \$10896 million, Argentina with \$5933 million, Hong Kong with \$3441 million, Mexico with \$2327 million, Malaysia with \$1527 million,

Singapore with $1473 million, China with $1350 million, and South Korea with $619 million were far larger developing country outward investors than India in 1986 (Table-2).

Table-1
Indian OFDI Stock (In $ million), 1976 to 2006

Waves	*Year*	*Number of Approvals*	*OFDI Stock ($ million)*			
			Approved		*Actual*	
			Value	*Percentage Change*	*Value*	*Percentage Change*
First Wave (FW)	As on 1.1. 1976	133	38	-----	17	-----
	As on 31-8-1980	204	119	213	46	171
	As on 1-9-1986	208	90	-24	75	63
Second Wave (SW)	As on 31-12-1990	214	NA	------	NA	----
	As on 31-12-1995	1016	961	------	212	----
	As on 31-3-2000	2204	4151	332	794	275
	As on 28-2-2006	8620	16395	295	8181	930

Note: (i) OFDI stocks up to 1995 includes only equity values of Indian joint ventures and subsidiaries abroad and from 2000 onwards includes equity, loan and guarantee as well; *(ii)* the OFDI stock for 2000 and 2006 were obtained by adding cumulative outflows data during 1996–97 to 1999–2000 and 1996–97 to 2005–06 respectively and these data were obtained from the Investment Division, Department of Economic Affairs, Ministry of Finance, Government of India; *(iii)* OFDI stock data up to 1995 are in Indian rupees and they were converted into dollar terms by utilizing corresponding monthly exchange rate of the concerned year.

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) *Report of Workshop on Indian Joint Ventures Abroad and Project Exports*, New Delhi, pp. 74–77; *(iv)* Indian Investment Centre (1991) *Monthly Newsletter* 25th May, pp. LXVI-LXVII; *(v)* Indian Investment Centre (1998) Indian Joint Ventures & Wholly Owned Subsidiaries Abroad Up To December 1995, pp. 1–2 and pp.59–60; *(vi)* the website of the Investment Division, Department of Economic Affairs, Ministry of Finance, Government of India.

Figure-1 graphically summarizes India's OFDI stocks at various years. It can be seen that the outward investment in the FW is characterized by small volumes whereas in the SW the size of such investments have grown considerably. There are a host of factors that can explain the observed low volumes of Indian OFDI in the FW. Firstly, the restrictive government policies with respect to OFDI have clearly restricted the scope and potential of overseas investment by Indian firms. The existing regulatory regime not only required prior permission for OFDI, but also had cumbersome approval procedures. It had

imposed limits both on the size of an OFDI project and extent of Indian ownership in it. The policy parameters further required that Indian OFDI should be in the form of Indian made machinery and equipment, technical know-how and skills but investments in the form of cash remittances were normally discouraged. Secondly, the low levels of export activities by Indian firms in the pre-1991 period had also reduced the scope of Indian OFDI. The protective policy environment pursued during that period had assured Indian firms a large sheltered domestic market negatively affecting their export-intensity and as a result of which India's share in global trade was hovering below 1 per cent. With low export activities Indian firms had low information about and experience with global markets. A lower degree of export dependence implies that the need to undertake trade-sporting OFDI by Indian firms to support their exports is also low. Thirdly, the ownership advantages of large number of Indian firms were in the process of significant improvements under a liberal patent regime but were still falling short of the sophistication required for OFDI.

Table-2
India and Selected Outward Investing Developing Countries

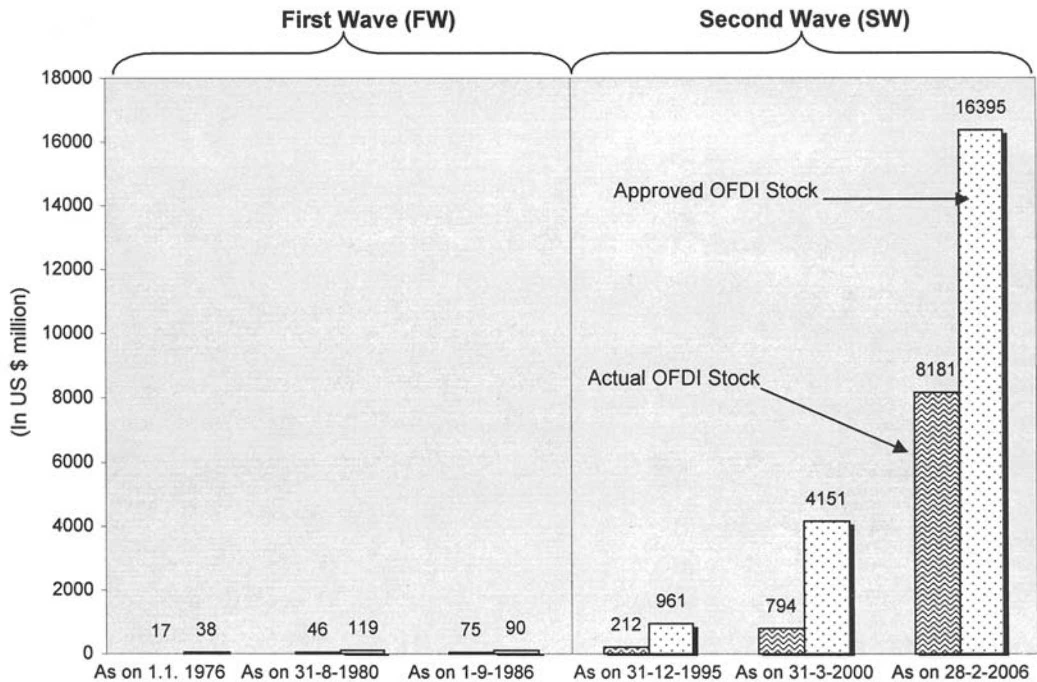
Country	*OFDI Stock ($ million)*			*As a ratio of Indian OFDI Stock*	
	1986	*2005*	*Percentage change*	*1986*	*2005*
Argentina	5933	22633	282	65.9	1.38
Brazil	39583	71556	81	439.8	4.36
Chile	119	21286	17788	1.3	1.30
China	1350	46311	3330	15.0	2.82
China, Hong Kong SAR	3441	470458	13571	38.2	28.70
China, Taiwan Province of	13336	97293	630	148.2	5.93
Indonesia	44	13735	31115	0.5	0.84
Korea, Republic of	619	36478	5790	6.9	2.22
Malaysia	1527	44480	2812	17.0	2.71
Mexico	2327	28040	1105	25.9	1.71
Singapore	1473	110932	7431	16.4	6.77
South Africa	10896	38503	253	121.1	2.35
India	90	16395	18117	1.0	1.00

Source: (i) Data related to countries other than India is obtained from the UNCTAD's FDI database available at http://stats.unctad.org/FDI/TableViewer/tableView.aspx?ReportId=334; (ii) Data for India is from Table-1.

The Indian OFDI stocks have grown at much faster rates in the SW as compared to the FW. The total value of approved FDI stock more than quadrupled between 1995 and 2000

from $961 million to $4151 million. The value of approved OFDI stock in 2006 (i.e. $16395 million) is about seventeen times its value in 1995. Although the gap between India's OFDI stock and that of other outward investing developing countries still persists but has been greatly reduced by 2005. Except Hong Kong, India has aggressively competed with developing countries like Argentina, Brazil, China, South Korea, Malaysia, Mexico, Singapore, South Africa as global source of FDI and the inverse-ratio of India's OFDI stock to that of these countries have fallen greatly (Table-2).

Figure-1
Indian OFDI Stock (In $ million), 1976 to 2006



Source: Based on Table-1.

Clearly, the SW reflects the real boom in the outward investment activities of Indian enterprises. Since early 1990s there is an urgent need for Indian firms to grow globally through OFDI for a variety of reasons. The past industrialization and developmental process had substantially improved India's locational advantages like skills (general, technical and managerial), physical and scientific infrastructures and institutions. The firm-specific technological efforts were strongly complemented by these growing locational advantages and India's much pursued technology policy of achieving technological self-reliance. A large number of Indian firms across a wide range of

industries have emerged with higher levels of competitive advantages based on technology, skills, management expertise, quality and scale of production. The process of increasing globalization including internal liberalization had offered these capable Indian firms business opportunities at a global scale and OFDI became the efficient strategy for expanding operation overseas. OFDI also turned out to be the best strategy for Indian firms to gain access to new skills, technologies, and marketing capabilities to further improve their firm-specific competitive advantages. These acquired intangible assets can be best weapons in the hands of technologically weak Indian companies to quickly enhance their competitive strength to beat the incumbent developed country firms in the global market as well as ensure their own survival. Moreover, overseas investment has been actively employed by Indian firms to secure sources of raw materials in natural resource-based industries like gas, oil, copper, aluminum, and steel. The liberalization of government policy with respect to OFDI like granting automatic approval to the OFDI applications, removal of ceiling on the amount of outward investment, allowing Indian companies to raise financial resources for overseas acquisitions and relaxation of other restrictive rules has provided ultimate impetus to the overseas expansion activities of Indian enterprises.

2.2. Regional Distribution

The geographical spread of Indian OFDI under the FW has been largely limited to the developing region of the world economy. Developing countries have been the major hosts, accounting for about 90 per cent of the OFDI stock in 1976 and their share has gone up to about 96 per cent in 1986. The importance of developed countries for Indian outward investment firms was comparatively marginal and their share in OFDI stock has in fact declined from 10 per cent in 1976 to 2 per cent in 1986 (Table-3). Within developing region, the Indian OFDI was characterized by a regional concentration and primarily a few developing countries belong to West and East Africa, and South-East Asia were the major host countries (Figure-2). Developing countries such as Malaysia, Indonesia, Kenya, Thailand, Singapore, and Nigeria were the most preferred destinations for Indian OFDI during the FW (Appendix Tables-A1 & A2).

The developing country orientation of Indian OFDI in the FW partly reflects the nature of ownership advantages possessed by Indian firms at that time. It has been generally noted that the sources of competitive prowess of Indian firms rested in their capabilities to replicate a foreign technology in cost-efficient modes to be relevant and appropriate for the factor and demand conditions existing in developing countries (Lall, 1982, 1983). These firms used to reverse engineers the imported foreign technologies and equipments with in-house engineering and R&D efforts to develop their own firm-specific

technologies. These technological advantages were not of frontier types but could generate competitive edge over other competing firms in developing countries with patent laxities. This has been the main stimulant for the concentration of Indian OFDI stocks in developing regions. The existing favourable views in the host developing countries about OFDI originating from fellow developing countries were another attraction for Indian outward investors. Moreover, the locational decisions of Indian firms were also positively influenced by the policy of 'south-south' cooperation pursued by India in the 1970s and the gravity factors of international trade like geographical, cultural and historical proximities.

Table-3
Distribution of Indian OFDI Stock by Host Regions, 1976 to 2006 (In Per Cent)

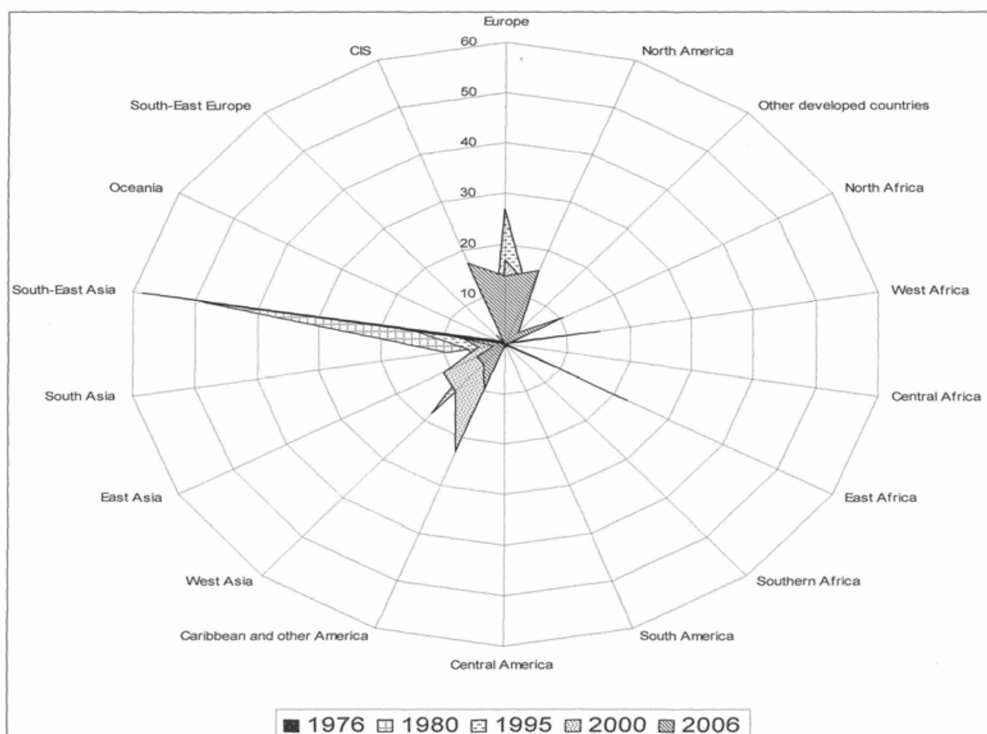
Host region/economy	*First Wave (FW) As on*			*Second Wave (SW) As on*		
	01-08-1976	*31-08-1980*	*31-07-1986*	*31-12-1995*	*31-03-2000*	*28-02-2006*
Developed economies	10.12	5.02	1.61	40.80	29.62	32.17
Europe	5.41	1.89	1.18	26.80	16.82	13.54
European Union	5.41	1.88	1.15	25.69	16.19	12.75
Other developed 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

contd...

Host region/economy	First Wave (FW) As on			Second Wave (SW) As on		
	01-08-1976	31-08-1980	31-07-1986	31-12-1995	31-03-2000	28-02-2006
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

Note and Source: Same as for Table-1.

Figure-2
Regional Distribution of Indian OFDI Stock, 1976 to 2006 (In per cent)



The regional patterns of Indian OFDI stocks underwent noticeable changes in the SW with an increasing locational diversification 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 FW has increased to about 128 in the SW (Table-3). The share of developed country which was less than 2 per cent in 1986 has gone up to 41 per cent in 1995 and consistently stayed above 30 per cent share of total OFDI stocks in 2000 and 2006. In the developed region North America followed by the European Union comes out as two top host regions (Figure-2). The sharp rise in the shares of North America and the European Union is on account of larger proportion of Indian OFDI being directed at the USA and UK respectively. In 2006, USA and UK respectively claimed about 15 and 6 per cent of India's OFDI stock. The share of developing countries has got significantly reduced from 96 per cent in 1986 to 54 per cent in 1995 and further to 50.5 per cent in 2006. Notably, the countries in the CIS (Commonwealth of Independent States) have improved their attractiveness to Indian investors and their share has gone up from 5 per cent in 1995 to about 17 per cent in 2006.

The increasing attractiveness of developed countries to Indian OFDI can be related to the growing sophistication of ownership advantages of Indian manufacturing firms and emergence of service firms like software companies catering to the demand of the developed countries. With decades of technological capacity building aiming at self reliance, the 1990s has seen the rise of innovative Indian firms creating substantial intellectual properties of their own. For example, many Indian firms in the pharmaceutical sector are now having considerable ownership advantages derived from product and process development and are competing more efficiently in the world market. With these growing competitive capabilities OFDI has emerged as the natural global strategy for these innovative firms to maximize returns to their intangible assets. The growing importance of developed country as a host to Indian OFDI has also been related to the rapid rise of service firms in the Indian economy (Pradhan 2003). Indeed, developed countries have been the main source of opportunities for service firms in software sector to grow and integrate with the global economy. Since much of the software activities require proximity with their developed country customers, OFDI has been used by Indian software firms to establish their fully controlled branches or subsidiaries abroad and to acquire overseas competitors for gaining market access and additional intangible assets (Pradhan and Abraham, 2004). Developing countries with lack of demand for software services are, therefore, not a preferred destination for Indian service-OFDI.

2.3. Sectoral Composition

The evolution of Indian OFDI from the FW to the SW has seen Indian firms, belonging to all the sectors of economy, adopting OFDI as a means of serving overseas markets. In this process the rise of services-firms in undertaking overseas investment activities has been relatively rapid as compared to manufacturing companies. This has led to a consistent decline in the share of manufacturing sector in India's OFDI stock. Its share was about 94 per cent in actual FDI stock in 1980 and got reduced to 85 per cent in 1987 and further to 58 per cent of the approved OFDI stock as on February 2006 (Table-4). The share of service sector has increased considerably from about 4 per cent of the actual stock in 1987 to about 38 per cent of approved OFDI stock as on February 2006. Although there is limitation in comparing the sectoral shares in actual OFDI stock at one time point to their shares in approved stock at another time point but the general significance of service sector as an important source of Indian OFDI under the SW can't be undermined. Within the service sector Indian firms in the non-financial services dominates the OFDI patterns. Pradhan (2003) in a disaggregate analysis of OFDI approvals has observed that about 56 per cent of services-OFDI flows during 1996–March 2001 is contributed by Indian firms belonging to IT, communication and software sector. With 34 per cent share of OFDI flows in the same period media, broadcasting and publishing emerged as second largest outward investing services-sector from Indian economy. In the manufacturing sector a large number of individual industries started actively participating in OFDI activities and notably the significance of Indian pharmaceutical firms as outward investors has increased rapidly under the SW (Pradhan, 2005). Regarding the rise of software, communication, and pharmaceutical firms as outward investors under the SW, the study concludes as follows:

> "The emergence of knowledge-based segment of Indian economy such as drugs & pharmaceuticals, software and broadcasting as the leading outward investors indicate the rapid pace at which India is enhancing global position in knowledge-based economy. During the second wave the technological capabilities of Indian enterprises have seen diversification towards basic and frontier research activities under the facilitating role of national innovation system. For example, many of the leading Indian pharmaceutical firms like Ranbaxy, Dr Reddy's Labs among others have made significant progress in directing their R&D focus on new product developments. Maybe modestly, the ownership advantages of Indian OFDI in industries such as pharmaceutical, software and transport now seem to be based on advanced technologies." (Pradhan, 2005, p. 13)

Table-4
Sectoral Composition of Indian OFDI Stock and Cumulative Flows in $ Million

Sector	*First Wave (FW)*			*Second Wave (SW)*
	OFDI Stocks An on			*Cumulative OFDI Flows*
	31.08.1980		*1987*	*1990–00 to 2005–06 (February)*
	Approved	*Actual*	*Actual*	*Approved*
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)

contd...

Note: (i) Percentage shares are in parenthesis; *(ii)* OFDI stocks for 1981 and 1987 includes only equity values of Indian joint ventures and subsidiaries abroad and from 1990–2000 onwards includes equity, loan and guarantee as well; *(iii)* OFDI stock data for 1980 and 1987 are in Indian rupees and they were converted into dollar terms by utilizing corresponding monthly and yearly average exchange rate.

Source: (i) Indian Investment Centre (1981) *Indian Joint Ventures Abroad: An Appraisal*, pp. 28–29; *(ii)* Indian Investment Centre (1987) Fact sheets on Indian Joint Ventures Abroad, as quoted in Ranganathan (1990) Export *Promotion and Indian Joint Ventures*, unpublished Ph.D. thesis, Kurukshetra University, India, p. 139; *(iii)* the website of the Investment Division, Department of Economic Affairs, Ministry of Finance, Government of India

2.4. Ownership Pattern

An important feature of Indian OFDI policy regime in the FW is the stipulation that Indian companies should possess a minority control over their overseas ventures. In general the permissible limit for Indian ownership is about 49 per cent of the equity capital and any higher level of participation than this limit is allowed only when the concerned host country does not have any objection to majority ownership. Not surprisingly, the observed patterns of Indian ownership participation in OFDI have been traditionally minority-owned in the FW. The proportion of Indian overseas ventures having a majority Indian ownership of 75 per cent and above is very marginal in total number of overseas ventures. It is about 4–5 per cent in 1982 and 1987 (Table-5).

Table-5
Ownership Pattern of Indian joint ventures and subsidiaries abroad

Equity Range (%)	***First Wave (FW)***				***Second Wave (SW)***		
	1982		*1987*		*Equity Range (%)*	*1991–March 2001*	
	Number	*Per cent*	*Number*	*Per cent*		*Number*	*Per cent*
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

Source: *(i)* Ranganathan (1990) *Export Promotion and Indian Joint Ventures*, unpublished Ph.D. thesis, Kurukshetra University, India, p. 136; *(ii)* Pradhan (2005), p. 25.

As compared to the FW, Indian firms since the 1990s have shown overwhelming inclination for complete control over their overseas production activities. Indian overseas ventures with a majority ownership of 80 per cent and above constitute about 70 per cent of approved OFDI cases during 1991 to March 2001. This domination of majority

ownership patterns in the SW is due to both firm-specific and policy reasons. Because of increasing ownership-specific advantages in the SW, Indian firms considered full-control over overseas ventures as essential strategy to protect those advantages from passing on to competing firms and to maximize associated revenue productivity. Moreover, the relaxation of policy restriction on the level of Indian equity participation in early 1990s has provided the additional feasibility for possessing full control of overseas operations.

2.5. Modes of Entry

In the FW, Indian OFDI was traditionally characterized by greenfield investments of Indian firms to establish a new joint venture or subsidiary overseas. In the SW, overseas acquisition has come out as the favourite strategy of Indian companies to enlarge their overseas presence. Since late 1990s a growing number of Indian firms have adopted acquisition as a less risky mode of foreign market entry and as an easier method of acquiring new technology, skills, experience and marketing intangible assets (Pradhan and Abraham, 2005; Pradhan and Alakshendra, 2006). A short period of four years from 2000 to 2003 has witnessed as many as 119 overseas acquisitions by Indian firms, largely directed at developed countries accounting for about 78 per cent of the total number of acquisitions with USA claiming the majority share in it (Table-6). 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 per cent of total acquisition, followed by pharmaceutical companies with a share of 10 per cent. 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. Table-7 provides a list of top ten overseas acquisitions made by Indian pharmaceutical and software companies during 2000–2007.

Table-6
Overseas M&As by Indian Enterprises, 2000–2003

M&As in Number					
Sectoral Composition			**Regional Composition**		
Sector	*No.*	*Per cent*	*Region*	*No.*	*Per cent*
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 Sector	119	100	**All Region**	119	100

Source: Pradhan and Abraham (2005), pp. 369–371.

2.6. Firm Size Diversification

The Indian OFDI in the FW is mostly contributed by large-sized family-owned businesses which have large resources and possess substantial technological expertise. A very few medium-sized Indian firms such as Indian Hume Pipe Company Limited and Gajra Gears Private Limited have also participated in the OFDI activities but the involvement of small-sized firms in overseas investment could not be detected in the FW (Pradhan and Sahoo, 2005). However, in the SW there has been considerable size diversification in the OFDI activities. An increasing number of small and medium sized (SMEs) Indian firms from manufacturing and software sector have taken to OFDI as a way of overseas expansion. Within a period of ten years since 1991 to March 2001, about 177 overseas projects by Indian manufacturing SMEs and about 454 projects by Indian software SMEs had received government approvals, indicating a greater degree of OFDI participation by these firms in the SW (Table-8). As on 31st March 2001, SMEs accounted for about 26 per cent of Indian OFDI approvals in manufacturing and 41 per cent in the case of software OFDI approvals. In terms of OFDI stock, the share of manufacturing SMEs is about 7 per cent and that of software SMEs is 47 per cent.

Table-7
Top Ten Overseas acquisitions by Indian pharmaceutical and software companies by Amount of Consideration

Year	*Acquirer Company*	*Acquired Company*	*Amount ($ million)*	*Headquarter*
Top Ten Pharmaceutical Acquisitions				
2006	Dr Reddy's Laboratories Ltd	Betapharm Arzneimittel GmbH	582	Germany
2005	Matrix Laboratories Ltd	Docpharma NV	263	Belgium
2003	Ranbaxy Laboratories	RPG (Aventis) SA and its subsidiary OPIH SARL	86	France
2005	Dr Reddy's Laboratories Ltd	Roche's API unit	59	Mexico
2005	Jubilant Organosys Ltd	Target Research Associates Inc	34	USA
2005	Torrent Pharmaceuticals Ltd	Heumann Pharma GmbH & Co Generica KG	30	Germany
2005	Sun Pharmaceutical	Able Labs	23	USA
2005	Malladi Drugs and Pharmaceuticals	Novus Fine Chemicals	23	USA
2003	Wockhardt Ltd	CP Pharmaceuticals Ltd	18	UK
2005	Ranbaxy Laboratories	Efarmes Sa	18	Spain
Top Ten Software and IT Acquisitions				
2000	BFL Software	MphasiS Corp	200.8	USA
2007*	Subex Azure	Syndesis Limited	164.5	Canada
2006	Subex Systems	Azure Solutions	140	UK
2006	Transworks BPO	46.4 per cent in Minacs Worldwide	125	Canada
2000	Silverline Technologies	SeraNova Inc	99	USA
2006	TCS	75 per cent in TKS-Teknosoft	80.3	Switzerland
2001	SSI Ltd	AlbionOrion Company, LLC	63.65	USA
2006	Sasken Communication Technologies	Botnia Hightech Oy	45	Finland
2001	ICICI Ltd	Command System Inc.	40	USA
2000	Mascon Global	International Software	37.5	USA

Note: * The deal is still under progress.
Source: Based on own database built on different newspaper sources and company annual reports.

The rise of small and medium firms as outward investors from Indian economy in the SW can be related to the changes in the business environment which became extremely competitive following the implementation of liberalization in the domestic policies and

rapid globalization process of the 1990s. The small firms in India used to enjoy double protection under the existing policy regime in the FW—protection from foreign competition like imports and inward foreign investment and also protection from large domestic firms through reservation of production lines and various other policy supports like preference in government procurement. Deservation, substantial reduction in import tariffs, automatic approval of 100 per cent inward FDI in large number of industries and withdrawal of several benefits granted to small firms, have all greatly pushed these firms into intense competitive situation. OFDI has come as a natural choice for these firms to expand the size of market for their products by creating trade supporting networks overseas and to strengthen firm-specific intangible assets via acquiring small size foreign competitors.

Table-8
OFDI Stock by Firm Sizes, As on March 31, 2001

Sectors		*Firm Size*				
		Small	*Medium*	*SMEs*	*Large*	*Total*
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: Percentages are in parenthesis.; *Source*: Pradhan and Sahoo (2005)

2.7. Motivations

There are two main motivations of Indian OFDI in the FW. First, the policies pursued by the government like the Monopolies and Restrictive Trade Practices Act (MRTP), Foreign Exchange Regulation Act, licensing policies, etc., had seriously inhibited the domestic growth of large Indian firms (IIFT, 1977; Lall, 1983; Agarwal, 1985). In this context, OFDI emerged as a strategy for these firms to seek additional market for growth. Second, the existing policy emphasis of developing countries including India was on 'south-south' cooperation which has given a liberal approach to developing country OFDI and this has also motivated certain Indian companies to take up OFDI as a means of diversifying their business risks geographically. During the FW, Indian firm's 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.

The SW saw fundamental changes in the motivations of Indian OFDI (Pradhan, 2005). Besides the traditional motivation of market access, OFDI was increasingly resorted to develop trade-supporting networks abroad. The creation of customer care and service centres abroad was to ensure timely after sales services to global customers so as to improve exports from the home country. For technologically advanced Indian firms OFDI has been the strategy to exploit ownership advantages in efficient manner by utilizing the superior locational advantages offered by host countries. Indian firms also had strong motivation to use OFDI in brownfield form to acquire additional technologies, skills, management expertise, marketing distribution networks overseas (Pradhan and Abraham, 2005) and to increase their scale of production across regions. A significant part of Indian OFDI has also been led by government-owned enterprises motivated to secure natural resources like natural gas and petroleum.

3. Policy Regime and Institutional Supports for OFDI

Broadly the evolution of Indian policy regime towards Indian firms' investment abroad can be classified into two phases. The first phase of the OFDI policy started with the formulation of General Guidelines on Indian joint ventures overseas in 1969. With two revisions in September 1978 and November 1986, this policy regime governed Indian OFDI until September 1992. The second phase of Indian OFDI policy began with the issue of comprehensively modified guidelines for Indian joint ventures and wholly owned subsidiaries abroad issued in October 1992. The main features of Indian OFDI policy during these two phases are summarized in Box-1.

3.1. First Phase of Indian OFDI Policy

The old policy guidelines that came into existence in 1969 heralded a restrictive regime for Indian OFDI activities. Although, Indian government had strong desire to promote Indian OFDI as a tool to help other developing countries in their industrialization process but had to be restrictive given the difficult balance of payment situation and tiny reserves of foreign exchange. Therefore, the policy insisted that Indian overseas investment has to be in non-cash mode like exports of Indian made machine, equipment, technical know-how, etc., and a small amount of cash remittance that can be permitted for meeting preliminary expenses related to the setting up of overseas unit. The postulation of Indian equity participation in overseas project through exports was motivated to exploit export potentials of Indian OFDI. The policy explicitly required that Indian investing firms should go for minority-owned joint ventures that maximize the association of local parties, local banks and financial institutions in the host developing countries. The provision of joint-venture type of OFDI was to ensure that host developing countries

should be able to efficiently absorb intermediate Indian technologies and skills. Further, Indian outward investors are required to provide training facilities to their overseas partners in India.

Box-1
Salient features of different phases of OFDI policy

	Phase I: 1978–1992	*Phase II: 1992–onwards*
Policy Objectives	• 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	• Promoting OFDI as a tool of global competitiveness • Maximizing exporting from India, acquiring overseas technology, gaining insider status in emerging trading blocs, etc.
Strategies	• Permission only for minority-owned joint ventures (JVs)	• Removal of ownership restriction in overseas ventures
	• 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	• 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
	• Overseas JVs must be in the same line of business activity	• OFDI can be in any bonafide business activity
	• OFDI is permitted only through normal route under the Inter-Ministerial Committee.	• Automatic route under Reserve Bank of India (RBI) is instituted for OFDI approval along with the usual normal route.

Source: Pradhan and Sahoo (2005)

In the 1978 revision of the OFDI policy, an Inter-Ministerial Committee on joint venture was established under the Ministry of Commerce[1]. The Committee became the focal point for approving, monitoring and evaluating overseas investment proposals from Indian companies. The goal of Indian government to use OFDI as a tool of 'south-south' cooperation become more explicit with the policy guideline requiring that Indian OFDI should operate in accordance with the rules and regulations of the host country. The

[1] Guidelines *Governing Indian Joint Ventures Abroad* (as modified on 28 September 1978) in FICCI (1982) *Workshop on Indian Joint Ventures Abroad and Project Exports*, New Delhi, pp. 29–31.

emphasis on joint-ownership continued to be the policy preference but a liberal view towards higher Indian ownerships can be taken if the host country government and partners have no objection to it. The restriction on ‘cash remittance’ against OFDI still continued but hard and deserving OFDI cases now may be permitted cash remittance. The government also allowed Indian investing companies to provide long-term loans to their overseas joint ventures and to contribute to their right issue, to raise foreign exchange loans abroad, and to capitalize service fees, royalties and other payments towards OFDI. Reserve Bank of India has been provided with the necessary powers to grant foreign exchange to Indian parties for meeting preliminary expenses for setting up overseas projects and also for follow up visits by Indian technical and managerial personnel. In view of the observed high mortality rate of Indian joint ventures abroad, the Ministry of Commerce had further revised the policies in 1986[2]. The revised Guidelines for investments abroad had all the salient features of earlier Guidelines in more detailed explanatory forms besides adding few more conditionalities. The Government started scrutinizing OFDI proposals in greater detail with much emphasis on the submission of a technical and financial viability report on the proposed overseas project. In addition, financial credibility and past export performance of the aspiring outward investing Indian firm became essential criterions. Individuals are explicitly prohibited from undertaking overseas investment.

Therefore, the policy of Indian government towards Indian companies setting up companies abroad has been largely restrictive in its approach. Restrictions on the extent of ownership participation, cash transfer against overseas investment, exports of second-hand and reconditioned machinery for OFDI, etc., have been the noticeable policy features. The approval procedure for OFDI has been quite cumbersome. There are different agencies involved in permitting OFDI projects leading to unnecessary delays. For example, for setting up an OFDI project or to purchase shares of a foreign company through exports of Indian made machinery, the Indian investor has to apply to Ministry of Commerce but when the Indian companies want to associate with a foreign player by way of technical collaboration or management services then they are required to submit their application to the Foreign Trade Division of the Department of Economic affairs under the Ministry of Finance. If the aspiring Indian investor is a company specified under the Foreign Exchange Regulation Act, then the application for OFDI has to be mooted through the Department of Company Affairs. Although, the Inter-Ministerial Committee was there to provide single window clearance but in actual practice an OFDI

[2] Ministry of Commerce (1986) *Manual of Investments Abroad*, Indian Institute of Foreign Trade, New Delhi.

project has to be approved by various government agencies. Application for an OFDI project has to be submitted in eleven copies in prescribed form together with specified documents to the above-mentioned agencies and one copy is to be forwarded to the Indian Mission in the potential host country. The submitted proposal was to be examined by the Ministry of External Affairs from the political angle, Ministry of Finance for the viability and cost-benefits assessment, Ministry of Law, Justice & Legal Affairs for examining the legal framework like the Companies Act, the MRTP Act and other relevant Act, Administrative Ministry for the angle of Industries (Development and Regulation) Act, Ministry of Commerce regarding export-import implications, RBI for examining essentiality of proposed investment and viability, Export-Import Bank of India for comment on selection of product, choice of the country, the choice of the foreign collaborator, the choice of technologies, etc., and the Indian Investment Centre for examining the application in terms of Policy Guidelines. Even after an OFDI project has been approved by the IMC, Indian overseas investor is required to get separate clearance from RBI for various aspects like release of foreign exchange for preliminary expenses, visits of Indian technical personnel overseas, etc. Although Indian companies were allowed to raise long-term loans abroad in selective manner, this provision couldn't help Indian firms much because the policy had restricted the Indian parent company to provide a 100 per cent back-up guarantee in India.

During the first phase of its evolution Indian policy regime, of course, had a number of mechanisms to promote Indian OFDI abroad specifically for exporting purpose. The exports of Indian made machinery and equipment against OFDI has been provided with normal fiscal benefits granted to commodity exports under the trade policy like grant of import replenishment licenses, Cash Compensatory Support for exports, deferred payment facilities, tax exemption for dividend receipts, technical payment and other service payments received from abroad, etc. However, to avail these fiscal benefits outward investing firms are required to get separate clearance from concerned authorities like Industrial Development Bank of India, Central Board of Direct Taxes, etc. In the early 1980s the newly established Export-Import (EXIM) Bank of India started the Overseas Investment Finance Scheme to help Indian firms setting up the joint venture abroad. Under this Scheme, the EXIM Bank provided financial support to Indian firms for equity investment in their ventures overseas as well as for lending purposes. However, Indian OFDI was still lacking the cover of a comprehensive investment guarantee scheme as found in other home countries like Germany, Japan, UK, USA, etc. The coverage of overseas investment insurance operating under the Export Credit Guarantee Corporation of India Limited (ECGC) since September 1978 was limited in actual practice to only those projects which are having financial participation and/or

those financed by the EXIM Bank under its overseas investment scheme. Although Indian policy document listed India's Double Taxation Avoidance Treaty with group of 13 countries as in 1977 as a promotional measure of OFDI but hardly these countries such as Egypt, Austria, Belgium, Denmark, Finland, France, Greece, Japan, Romania, Norway, Sweden, West Germany and Sri Lanka had attracted any Indian investment at that point of time. Indian Missions abroad and Indian Investment Centre played an important role in assisting potential Indian investors with the provision of crucial information on investment opportunities, locating joint venture partners, host country regulations and other procedures.

3.2. Second Phase of Indian OFDI Policy

With the issue of modified Guidelines for Indian Joint Ventures and Wholly Owned Subsidiaries in October 1992, the Indian OFDI policy regime has entered into a more liberalized phase. The new policy regime accorded automatic approval for Indian OFDI project where no prior approval from the regulatory authority like the RBI or Government of India is required for setting up of an overseas project. The restriction on cash transfers against OFDI has been removed and Indian firms were allowed to undertake $2 million, of which $5, 00,000 could be in cash, under the automatic route in a block of 3-year period. With this liberalization, the basic objective of OFDI policy has shifted from 'south-south cooperation' to the strategic objective of 'global competitiveness'. The Indian policy makers realized that OFDI is a strategic tool that can help Indian firms to acquire new technologies, skills, and other competitive assets urgently required for survival and growth in a globalizing world economy.

The liberalized Indian OFDI policy is intended on the recognition of: 'close relationship between flow of investment and trade; ….; the importance of continuously updating the technology through cross-border investments; more dynamic relationship between market seeking and resource seeking investments; tendency for skill and service intensity rather than material intensity in international flows; the importance of going behind the tariff walls erected by the emerging regional blocs; the trend towards multi-country ownership of enterprises; …'[3] It also sought to relate Indian realities to the new economic policies by: 'strengthening globalization of Indian economy by allowing the Indian entrepreneurship to go global; ….; visualizing the global economic relationship well beyond physical exports; ensuring that Indian industry and business attain strategic

[3] Indian Investment Centre (2000), *Guidelines for Indian Joint Ventures and Wholly Owned Subsidiaries Abroad*, New Delhi, p. 2.

positions in certain areas or regional blocs; increasing attention to joint ventures abroad in third countries while finalizing bilateral trade and economic relationship and the need for a more dynamic approach towards access to world technology through all means including overseas investment' [4].

The OFDI policy regime got further liberalized on several occasions in August 1995, in May 1999 and in various other circulars issued by RBI during 2000–2005 (see Table-9 for recent changes in OFDI policies). The 1995 revision led to enhancement of the investment ceiling under automatic approval route to Rs. 120 crores in Nepal and Bhutan, $30 million in the case of other SAARC countries and Myanmar, and $15 million in all other cases[5]. However, this investment except in Nepal and Bhutan as well as investment made by Indian software firms, must not exceed 25% of annual average exports/foreign exchange earnings of the Indian party in the preceding three years. All applications not falling under the automatic approval route will be referred to a Special Committee appointed by the RBI which has as members, representatives from different Ministries such as Commerce, Finance, External Affairs and from the Department of Company Affairs and RBI. Indian OFDI was also permitted to take the form of export of second-hand or reconditioned machinery reversing the provision of old policy regime.

The changes in policy regime from May 1999 to July 2002 have further liberalized the OFDI policy regime[6]. The OFDI investment limit under automatic route has gone up to $100 million or its equivalent in any one financial year for all countries except SAARC countries and Myanmar. The amount of OFDI for Nepal and Bhutan was raised to Rs.350 crores and for Myanmar, Bangladesh, Maldives, and Sri Lanka the increased OFDI amount was up to $75 million or its equivalent in any one financial year. Indian OFDI can be funded out by the balances held in Exchange Earners Foreign Currency (EEFC) account of the Indian party, drawal of foreign exchange including capitalization of exports (up to 50% of the net worth of the Indian party), funds raised through ADR/GDR[7] issues and share swap (i.e. acquisition of the shares of an overseas concern in exchange of the shares of the Indian party). The condition that outward investing Indian

[4] *Ibid*.

[5] Government of India, Ministry of Commerce Notification No. 4/1/93-EP (OI) dated August 17, 1995.

[6] Reserve Bank of India, Exchange Control Department notification EC.CO.PCD.No. 15.02.76/2002-2003, dated July 12, 2002.

[7] ADR-American Depository Receipts and GDR- Global Depository Receipts.

companies should repatriate the amount invested abroad in full by way of dividend, royalty, etc., within a period of five years has been dispensed with[8].

Recent circulars by RBI as listed in Table-9 has led to a more progressive and enabling OFDI policy. The condition of 'same core activity' has been replaced by 'any bona fide business activity'. Indian companies are now permitted to invest up to 200 per cent of their net-worth[9] and can raise external commercial borrowings (ECB) for undertaking overseas direct investment as well as mergers and acquisitions of overseas companies[10].

Table-9
Recent Changes in Policy Environment for OFDI, 2001–2005

Year	*Description of Policy Liberalization*
2001–02	• Indian companies are permitted to invest up to US$50 million or its equivalent (US$ 75 million in Myanmar, Maldives, Sri Lanka and Bangladesh) in a financial year rather than in a block of three financial years as required earlier. *(RBI Circular, A.D.(DIR. Series) Circular No. 32, April 28, 2001).* • The profitability condition, which requires that Indian company applying for OFDI must have earned net profit during the preceding three accounting years, has been removed. *(RBI Circular, A.D.(DIR. Series) Circular No. 32, April 28, 2001).* • The Indian rupee investment in Nepal and Bhutan has further been raised to Rs. 350 crores in a financial year as against the existing limit of Rs. 120 crores in a block of three financial years. *(RBI Circular, A.D.(DIR. Series) Circular No. 32, April 28, 2001).* • Indian companies are allowed to utilize up to 100 per cent proceeds of ADRs/GDRs for overseas investments instead of the existing ceiling of 50 per cent. *(RBI Circular, A.D.(DIR. Series) Circular No. 32, April 28, 2001).* • Indian companies registered under the Indian Partnership Act, 1932, have also been permitted to make direct investment. *(RBI Circular, A.D.(DIR. Series) Circular No. 32, April 28, 2001).* • The existing limit of US$50 million in a financial year under the Automatic route has been increased to US$100 million for outward investment. *(RBI Circular, A.P.(DIR. Series) Circular No. 27, March 2, 2002).* • Investment under the Automatic route funded by drawal of foreign exchange from an authorized dealer has been raised to 50% of the net worth of the Indian

contd...

[8] Government of India, Ministry of Commerce Notification No. 4/1/93-EP(OI) dated 18th May 1999.

[9] Hindu (2004) 'Indian companies can go global in farm sector: PM lifts ceiling on overseas investments', 10 January.

[10] Reserve Bank of India, Exchange Control Department, A.P. (DIR Series) Circular No.75. dated Feb 23, 2004.

Year	Description of Policy Liberalization
	party against the existing limit of 20% of the net worth. *(RBI Circular A.P.(DIR. Series) Circular No. 27, March 2, 2002).*
2002–03	• An Indian company located in Special Economic Zones (SEZs) is permitted to invest in general insurance policies from insurers outside India provided the insurance premium is paid by the units out of their foreign exchange balances. *(RBI Circular A.P (DIR Series) Circular No.47, May 17, 2002).* • The requirement of forwarding 'form ODA' along with the prescribed documents to Reserve Bank for investments made under the automatic route by Indian parties has been dispensed with. *(RBI Circular A.P. (DIR Series) Circular No.51 June 24, 2002).* • An Indian entity (a company/firm/ corporate registered or incorporated in India) has been permitted to open, hold and maintain in the name of its office/branch set up outside India, a foreign currency account with a bank outside India by making remittance for the purpose of normal business operations of the said office/branch or representative. *(RBI Circular A.P. (DIR Series) Circular No.54 June 29, 2002).* • The existing ceiling for Indian investment in Myanmar and SAARC countries (excluding Pakistan) under the automatic route has been further enhanced to US$150 million or its equivalent and to Rs.700 crore for rupee investment in Nepal and Bhutan. *(RBI Circular A. P. (DIR Series) Circular No.58 , December 2, 2002).* • Indian corporates, resident individuals and mutual funds are permitted to invest in equity of overseas companies listed on a recognized stock exchange abroad and which has the shareholding of at least 10 per cent in an Indian company listed on a recognized stock exchange in India (as on 1st January of the year of the investment). Such investments shall not exceed 25 per cent of the Indian company's net worth, as on the date of latest audited balance sheet. *(RBI Circular A.P. (DIR Series) Circular No.66, January 13, 2003).* • The limit of US$ 20,000 for purchase of foreign securities by resident individual under Employees Stock Option (ESOP) Scheme has been removed. It can be up to any monetary limit. *(RBI Circular A.P. (DIR Series) Circular No.68, January 13, 2003).* • Indian companies are permitted to invest abroad funds raised through ADRs/GDRs, for any period to meet their future forex requirements as against the existing permission for a temporary period pending repatriation to India. *(RBI Circular A.P. (DIR Series) Circular No.69, January 13, 2003).* • Indian corporates who have set up overseas offices are allowed to acquire immovable property outside India for their business as also staff residential purposes with the prior permission of Reserve Bank. *(RBI Circular A.P. (DIR Series) Circular No.71, January 13, 2003).* • Within the overall ceiling of US$ 100 million, Indian companies are permitted to invest up to 100 per cent of their net worth against the existing limit of 50 per cent by way of market purchase of foreign exchange. *(RBI Circular, A.P.(DIR. Series) Circular No. 83, March 1, 2003).*

contd...

Year	Description of Policy Liberalization
	• The condition of 'same core activity' for OFDI has been removed and an Indian company can now invest in 'any bona fide business activity'. *(RBI Circular A.P.(DIR Series) Circular No.83, March 1, 2003).*
2003–04	• Indian corporates and resident individuals are now permitted to invest within the respective ceilings as applicable, in rated bonds/fixed income securities. *(RBI Circular A. P. (DIR Series) Circular No.97, April 29, 2003).* • Indian Mutual Funds desirous of investing in ADRs / GDRs of Indian companies and rated debt / equity instruments (within an overall cap of US$ 1 billion) are exempted from obtaining separate approval from the Reserve Bank. *(RBI Circular A. P. (DIR Series) Circular No.97, April 29, 2003).* • Investments in JV/WOS abroad through the medium of a Special Purpose Vehicle permitted under the Automatic route. *(RBI Circular A. P (DIR Series) Circular No. 41, December 6, 2003).* • In the case of outward investment by way of share swap, the requirement of prior approval of the Reserve Bank is removed. *(RBI Circular A. P (DIR Series) Circular No. 41, December 6, 2003).* • The stipulation of minimum net worth of Rs.15 crore for Indian companies engaged in financial sector activities in India removed for investment abroad in the financial sector. *(RBI Circular A. P (DIR Series) Circular No. 41, December 6, 2003).* • The requirement of prior approval of RBI dispensed with for diversification of activity/ step-down investment by JV/WOS established by an Indian party. *(RBI Circular A. P (DIR Series) Circular No. 41, December 6, 2003).* • Prior permission of RBI dispensed with for transfer by way of sale of shares of a JV/WOS abroad. *(RBI Circular A. P (DIR Series) Circular No. 41, December 6, 2003).* • Resident corporates are allowed to invest up to 100 per cent of their net worth in overseas JV/WOS without any monetary ceiling for overseas investment (the ceiling of US$100 million is removed). *(RBI Circular RBI /2004/11 A. P.(DIR Series) Circular No.57, January 13, 2004).* • Resident registered partnership firms are allowed to invest up to 100 per cent of their net worth in overseas JV/WOS without any monetary ceiling (The ceiling of US$ 10 million is removed). *(RBI Circular RBI /2004/11 A. P.(DIR Series) Circular No.57, January 13, 2004).* • Resident corporates and registered partnership firms are permitted to undertake agricultural activities overseas including purchase of land incidental to this activity either directly or through their overseas offices (i.e. other than through JV/WOS) under the Automatic Route. *(RBI Circular RBI /2004/11 A. P.(DIR Series) Circular No.57, January 13, 2004).* • End-use for External Commercial Borrowings (ECB) is enlarged to include overseas direct investment in Joint Ventures (JV)/Wholly Owned Subsidiaries (WOS) including mergers and acquisitions abroad. *(RBI Circular RBI/2004/72 A.P.(DIR Series) Circular No. 75, February 23, 2004).* • Short term credit to overseas offices of Indian companies is permitted without

contd...

Year	Description of Policy Liberalization
	prior approval of RBI. *(RBI Circular RBI/2004/74 A.P. (DIR Series) Circular No.76, February 24, 2004)*
2004–05	• An Indian Party may acquire shares of a foreign company, engaged in bona fide business activity, in exchange of ADRs/GDRs issued to the latter in accordance with the scheme for issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993, and the guidelines issued there under from time to time by the Central Government. *(RBI Notification No. FEMA 120/ RB-2004 dated: July 7, 2004).*
2005–06	• Eligible Indian entities are now permitted to invest in overseas in JV/WOS up to 200 per cent of their net worth under the automatic route for overseas investment. *(RBI/2005/463 A.P.(DIR Series) Circular No. 42, May 12, 2005).* • A person resident in India, who is an employee or a director of an Indian Office or branch or a subsidiary of a foreign company in India or of an Indian company in which foreign equity holding (direct as well as indirect) is not less 51 per cent, is permitted to purchase the equity shares offered by the said foreign company under the automatic route. Liberalization of Employees Stock Option Scheme (ESOP). *(RBI/2005/463 A.P.(DIR Series) Circular No. 42, May 12, 2005).*

The EXIM bank's Overseas Investment Finance Scheme and ECGC's Overseas Investment Guarantee Scheme continued to be major institutional support for promoting Indian OFDI in the second phase of policy evolution. The EXIM Bank's programme for overseas investment has become comprehensive in this period. Besides providing finance for Indian company's equity participation in the overseas ventures, the bank started granting direct long-term and working finance to Indian firm's overseas subsidiaries. Since 1990s, EXIM bank has expanded the scope of this programme to provide finance for acquisition of overseas businesses and also invest directly in equity of the overseas venture of an Indian company. As a part of this policy, the bank had financed 21 Indian companies' overseas investment in 2005–06 involving Rs. 1132 crore in 13 countries[11]. Of these, many overseas investments financed by EXIM bank is for brownfield investment like acquisition of Romanian soda ash firm S C Bega Upsom and UK-based textile retail chain Roseby by Gujarat Heavy Chemicals Limited, US-based Eight O"clock Coffee by Tata Coffee, a Nowergian firm by Aban Lloyd and a Belgain transformer company by Crompton Greaves, etc. As on end March 2006, EXIM bank's aggregate assistance extended for overseas investment amounts to Rs. 3020 crore in 144 overseas ventures set up by over 120 Indian companies in 45 countries. Under the Asian Countries Investment

[11] EXIM Bank (2006) Annual Report 2005–06, pp. 26–27.

Partners Programme, EXIM Bank's financial support now covers various stages of a joint venture's life cycle, such as sector study, project identification, feasibility study, prototype development, and technical and managerial assistance. EXIM bank is also trying to help Indian Small and Medium Enterprises (SMEs) to invest abroad and in association with Multilateral Investment Guarantee Agency (MIGA) has been organizing programmes to enable these firms to internationalize with the help of its own financing services and the credit insurance and other risk mitigation products of MIGA. However, at present Indian banks are not allowed to finance overseas takeovers except the EXIM bank, State Bank of India and ICICI Bank[12]. With large number of Indian firms going for brownfield investment, permitting Indian banks to enter into financing overseas acquisition can certainly contribute to Indian OFDI.

The Indian investments abroad by way of equity capital or untied loan for the purpose of setting up or expansion of overseas projects continued to receive protection under the overseas investment insurance of the ECGC. The insurance cover is for original investment together with annual dividends or interest receivable. The scheme covers the risks of war, expropriation and restriction on remittances. The period of insurance cover is normally for 15 years and can be extended to a maximum of 20 years from the date of commencement of investment. However, the ECGC normally links the provision of insurance cover for Indian OFDI project in those host countries with which India has a bilateral investment protection agreement.

In the first phase of policy evolution, Indian Investment Centre under the Department of Economic Affairs, Ministry of Finance, has played an important role in the promotion of Indian investment abroad by providing timely information on overseas business and joint venture opportunities to Indian entrepreneurs and assisting them in locating suitable foreign partners for collaborations. It also used to bring out reports on procedures and regulations for OFDI and firm-level data on approved overseas investment. However, in October 2004 Indian government took a decision to close the Indian Investment Centre and establish an Indian Investment Commission to market India as an investment destination on a sustained basis. The new Indian Investment Commission's objective is mainly to "secure a certain level of investments every year and will make recommendations to the Government both on policies and procedures to facilitate greater FDI inflows into India." (Government of India, Economic Survey, 2004–05, p. 157). Clearly the focus of the Indian Investment Commission was not OFDI

[12] Indian Express (2007) 'Indian Banks not Allowed to Finance Takeovers: Banks Seek Nod for Takeover Financing', February 12.

promotion but encouraging inward FDI. The closure of the Indian Investment Centre, which was looking after FDI promotion (both inward and outward), implies that Indian OFDI policy is still at an intermediate stage focusing largely on liberalizing the procedures and ceiling on OFDI and is still lacking an active OFDI promotion strategy. The government is yet to think of an alternative agency that can assume the works that IIC used to do for OFDI like providing timely information on overseas business opportunities, host country policies, release of firm-level data, and other support measures for promoting OFDI. Since RBI has emerged as the nodal agency for automatic approval route, it should take up the responsibility of releasing OFDI data at the firm-level and provide support services for OFDI through a specialized cell/division within itself.

In the second phase of OFDI policy, India has gone for expanding geographical scope of bilateral investment agreements (BITs) to a large number of countries. BITs provide reciprocal encouragement and facilitation to bilateral investment flows between two countries and contain a legal framework for investment protection. As on 1st June 2006, the total number of countries with whom India had BITs has gone up to 55 and these BITs can surely be conducive for Indian investment abroad. India's going for comprehensive free trade agreement (FTA) that covers services and investment with other countries can also help Indian outward FDI.

4. Indian Multinationals and Implications for Development

In this section we have dwelt at length on the effects of Indian multinationals on both the host developing and developed countries and the home country.

4.1. Indian Multinationals and Host Developing Countries

The literature on 'south-south' cooperation promoted by international development think-tanks like the Untied Nations Conference on Trade and Development (UNCTAD) and ESCAP (Economic and Social Commission for Asia and the Pacific) in 1960s–70s has led to a strong emphasis on inter-regional cooperation among the developing countries. Accordingly, host developing countries had shown greater preference for OFDI from fellow developing countries and home developing countries like India had encouraged their OFDI more into developing regions. In spite of the well-known fact that outward investing firms from developing countries generally lack latest technologies and skills possessed by firms from developed countries, developing country OFDI was presumed to be more beneficial than developed country OFDI for three distinct reasons. First, developing country firms unlike developed country enterprises were more willing to go

for joint venture arrangements in their overseas investment activities directed at developing regions. The establishment of joint ventures where local players have an effective say has been more effective in technology transfers and diffusion in the host countries than starting of wholly-owned subsidiaries. Second, the developing country OFDI brings in intermediate technologies which are more suitable to the needs and factor conditions of the developing countries. Third, the cost of technology transfers from developing country firms is quite low as compared to developed country firms and the technology contracts are generally not embedded with restrictive clauses that characterize technology transfers from developed countries like export restrictions, inputs and raw materials sourcing requirement, restriction on reverse engineering, etc.

The nature of Indian OFDI in the FW clearly exhibits these three benefits noted above. Indian policy makers, strong believers in 'south-south' cooperation, had encouraged joint venture form of OFDI as a mutually beneficial way of sharing India's industrial and technological experiences with other developing countries. The OFDI policy regime in the 1970s explicitly required that Indian investors should go for joint ventures with minority ownership and shall operate in accordance with objectives and regulations of host developing countries. It was also insisted that Indian firms should train the local parties. As a result of which majority of Indian OFDI ventures during that period were minority-owned joint ventures where the participation of local entrepreneurs has provided for effective technology transfers from India to host developing countries. Further, the less complicated intermediate technology transfers by Indian OFDI projects were suitable to the needs and requirements of host developing countries. These technologies were adapted to the local conditions with great emphasis on the use of local raw materials and suitable to the structure and scale of resource endowment available in India. The similarity of socio-economic conditions between India and host developing countries had given an edge to Indian technologies to be more appropriate and in tune with the level of development of host developing countries. Local firms based in developing countries with their low levels of technological capabilities were more capable of learning and mastering technologies originating in fellow developing countries like India than frontier and capital-intensive technologies transferred by affiliates of developed country firms. It was also the typical feature of Indian OFDI that they involved low cost of technology transfers and are relatively free from many restrictive clauses that generally accompanied the technology transfers from developed country firms such as export restriction, procurement of raw materials, inputs and parts from supplier of technology, restriction on reverse engineering of the imported technologies, etc (IIFT, 1977). Moreover, Indian firms used to provide training to host country nationals participating in their overseas joint ventures.

However, the superior role of Indian OFDI for southern host countries as compared to developed country OFDI has significantly reduced during the SW. When Indian firms themselves are becoming producers of significant intellectual properties they are not willing to share the ownership of their overseas operations with local players. The dilution of regulatory requirement of joint ownership in the 1990s has provided the opportunity to Indian firms to have complete ownership of their overseas ventures formed by transferring their intangible assets. With the emergence of majority-ownership arrangement as the most preferred strategy, Indian OFDI in the SW is no way different from developed country competitors which traditionally establish wholly-owned subsidiaries. This behaviour of Indian firms with respect to ownership pattern strongly supports Lall's hypothesis that Third World Multinationals are more willing to have joint ownership since they are owners of few monopolistic advantages in their early stages of development (Lall, 1983). Once these multinationals become owners of large monopolistic advantages their behaviour converges with that of developed country multinationals.

The argument of 'appropriate technology' also became less convincing for Indian OFDI in the SW due to growing sophistication of firm-specific assets of Indian firms and increasing proportion of their overseas investments going into developed countries. The possibility of Indian firms employing one set of monopolistic advantages to invest in developing countries and another set to make investment in developed countries is much lower given a globalized world economy with continuous liberalization and increasing openness to FDI. Indian firms have to compete with multinationals from developed countries that possess their own set of firm-specific intangible assets in their home country (i.e. India) as well in both developed and developing host countries. Since the ownership-advantages of developed country firms lies in powerful and broad-based monopolistic advantages originating from frontier innovation, sophisticated product differentiation, specialized management and managerial skills, one would expect that the competing Indian firms irrespective of location (i.e. whether operating in India or in host developed or developing countries) must have a set of sophisticated monopolistic advantages that provides them relative competitive edge. Therefore, one can argue that the nature and content of monopolistic advantages associated with Indian OFDI projects are no longer appropriate to fellow developing countries unlike the earlier period. Also, a corollary result of this conclusion leads one to presuppose that Indian firms are likely to have little incentives to provide technology at cheap cost and without any restrictive clauses.

However, Indian OFDI possesses all the traditional benefits that characterize developed country OFDI, i.e. they supplement host developing country investment process and bring in new technologies, experience, and expertise with possible knowledge-spillovers to local firms in the host countries.

4.2. Indian Multinationals and Host Developed Countries

The rise of Indian multinationals possesses a number of implications for host developed countries like USA, UK, and other European countries. First, the entry of greater number of Indian firms through greenfield projects into developed countries offer valuable competitive challenges to local firms to further improve their productivity, quality, and technologies. In this way the rise of developing country competitors can play a positive role in the improvement of efficiency at a global level. Second, Indian OFDI increases the range of products available to the consumers in these host countries by supplying low cost but quality products as alternatives to the costly branded products of local firms. For example, the OFDI by Indian pharmaceutical firms for producing generics has been playing an important role in the health security of developed country people by providing cheap generics. In the context of ever rising health cost in the USA, generics production by Indian multinationals provides a way to cut costs of drugs and hence can be seen as their contribution in making American health care far more affordable. Third, the inflow of brownfield Indian FDI into developed countries is likely to raise concern about the losing of national control over home-grown technologies. However, the impact of Indian firms taking over US-owned companies and technologies may not have to be seen in the narrow nationalistic perspective. Indian outward investing firms in their drive to push the frontier of technologies are bound to get positively affected by the higher R&D and skill infrastructure available in the host developed countries. They just can't close down the acquired R&D centres/firms in the developed countries rather they are likely to make considerable contribution to the technological activities of the host countries by combining and synergizing the cheap technical manpower and managerial advantages offered by India and R&D infrastructures of host developed countries. Moreover, it also can be argued that Indian OFDI involves transfer of unique Indian technologies and managerial skills which can be an added advantage for innovative capabilities of host developed countries. Fourth, given the inter-sectoral linkages Indian OFDI can also help the developed country firms to reduce costs and thus releasing more funds for R&D and other high value-added functions. This is amply clear in the case of services Indian OFDI. Indian software firms with their frontier expertise in high-end research and designs are providing great cost reduction opportunities for IT-using developed country firms and improvement in their efficiency for global competitiveness.

4.3. Indian Multinationals and Home Country

The overseas investment activities of national firms and the development level of the home country are both systematically related involving dynamic bi-way causations. The changing locational advantages of a home country determine the nature and quantum of OFDI flows and in turn get affected from such investment flows. It is important to analyze the ways in which Indian multinationals can affect the different dimensions of home country such as exports, employment, investment, technology, etc. In this subsection we discuss some of these aspects of the home country effects that Indian multinationals can have.

4.3.1. Home Country Exports

Historically one of the important policy objectives of promoting Indian OFDI is that they should act as vehicles of promoting Indian exports with minimal adverse effect on foreign exchange reserves. To achieve this objective 'non-cash equity contribution' through exports of Indian made capital goods, spare parts, know-how was encouraged. This Indian approach to use OFDI as a strategy of export promotion is not new to other outward investing countries. The idea that OFDI of a home country significantly affects its trade pattern and performance has been considerably debated in the case of large outward investing developed countries like USA, UK and Sweden, etc. The relationship between OFDI and home country exports has traditionally been around the question of whether OFDI complements exports from a home country or substitutes it. Many trade unions in the US had claimed that shifting of American production overseas leads to net exports loss from the country and therefore leading to losses in the US employment. However, the majority of empirical studies on the US economy do not support this contention (see Lipsey, 1994, 2002 for surveys). On the contrary, they had provided evidence that the effect of OFDI on US exports and employment was positive or favourable (Lipsey and Weiss, 1981, 1984; Blomström *et al.*, 1988; Brainard, 1993; Hufbauer *et al.*, 1994; Buigues and Jacquemin, 1994; Graham, 1996; Hejazi and Safarian, 2001). The complementarity between outward FDI and exports also has been reported for other developed countries like Sweden, Canada, Japan, etc.

The above-mentioned studies have argued that although the horizontal OFDI by national firms tends to directly substitute the home country's exports of final product but it more than offsets such displacement effect by raising the intermediate exports from the home economy. The net effects of OFDI are likely to be job creating in the economy with positive effects on the exports of the economy. In the backdrop of this general picture from the experience of other outward investing countries it may not be inappropriate to

predict a similar kind of export effect from Indian OFDI. The growth of Indian OFDI is still in an intermediate stage with a significant proportion of it is being directed to develop trade-supporting infrastructure abroad and to acquire overseas firm-specific intangibles. Not all Indian OFDI projects are for direct production.

A recent quantitative study has attempted to investigate the empirical nature of the impact of Indian OFDI on home country exports (Pradhan, 2004b). This has been done in the framework of Tobit model relating the export behaviour of Indian enterprises to OFDI, a set of other firm-specific factors, a group of sectoral dummies and a policy shift dummy. The independent variable OFDI is the OFDI intensity measured as the stock of OFDI equity held abroad as a percentage share of net worth of the firm. This variable is introduced as one year lagged form to minimize the bias that arises due to bi-way causation between OFDI and exports. The study period covers eleven years from 1990–91 to 2000–01 and for Indian manufacturing firms divided into 24 individual industries. The summary results from this study are provided in Table-10.

The essence of the empirical findings is that Indian OFDI has been export promoting for total manufacturing as well as for twelve individual industries out of twenty-four industries included in the study. This implies that the complementary effect of OFDI more than offsets its substitution effect in the case of Indian manufacturing. The overseas affiliates of Indian firms tends to rely more on raw materials and intermediate inputs from the home economy and a part of Indian OFDI that is directed at establishing distribution and marketing centres in foreign markets are generating additional exports demand from India.

4.3.2. Home Country Employment

OFDI can also affect the home country employment through several ways (see Blomström *et al.*, 1997; Agarwal, 1997; Andersen and Hainaut, 1998 for surveys). The first channel through which OFDI may affect home country employment is trade. The horizontal OFDI undertaken by domestic firms to serve the host country is likely to reduce domestic employment via substitution effect whereas it also generates employment by triggering additional exports of raw materials, intermediate inputs, capital goods, spare parts, etc., from the home country. A vertical FDI project can have negative impact on home country employment when it goes for securing overseas raw materials and contributes to increased imports by the parent firm into the home country whereas a vertical project for building trade-supporting infrastructure, distribution networks, customer care centre is expected to enlarge employment by boosting exports from home country. An efficiency-seeking FDI project by national firms to reap country-

Table-10
Summary Results on Role of OFDI in Export Performance of Indian enterprises

Dependent variable: Export Intensity (%)			
Industry Name	*Coefficient and Z-value of OFDINT*		*Other Factors Controlled*
	Coefficient	*Absolute Robust Z-value*	
Beer & Liquors	0.14645718*	1.72	Firm Age, Size, R&D intensity (%), Disembodied technology import intensity (%), Capital goods import intensity (%), Raw material import intensity (%), Selling cost intensity (%), Labour Productivity (%), foreign ownership dummy and liberalization dummy.
Cement	0.0879109	1.05	
Chemicals	0.2619836	1.53	
Electrical Machinery	0.17819494**	2.14	
Electronics	0.2389069	0.41	
Fertilizers	0.14823632**	2.07	
Food Products	1.11137695***	3.36	
Footwear	-1.77498968***	5.09	
Gems & Jewelry	2.34729304***	4.27	
Iron & Steel	0.22588570**	2.18	
Leather Products	-0.0916623	0.61	
Metal Products	0.1679005	1.46	
Misc. Manufacturing	0.3452286	1.48	
Non-electrical Machinery	0.36153043**	2.15	
Paints & Varnishes	-0.1655149	0.34	
Paper & Products	0.51652172***	2.78	
Pharmaceutical	0.29024370***	2.82	
Plastic & Products	0.0865702	0.75	
Rubber Products	0.79669891***	4.25	
Tea & Coffee	0.3427868	0.75	
Textiles	0.31787446***	2.58	
Transport Equipments	0.43273167*	1.88	
Tyres	-0.5687445	0.74	
Wearing Apparel	1.72082494***	3.2	
Total Manufacturing	0.34311294***	7.30	Above mentioned variables plus individual industry dummies

Note: OFDINT is the stock of OFDI equity held abroad as a percentage share of net worth; liberalization dummy takes value zero for years over 1990–91 to 1992–93 and unity for years over 1993–94 to 2000–01; * significant at 10%; ** significant at 5%; *** significant at 1%

Source: Pradhan (2004a), pp. 106–107 & 112.

specific locational advantages, e.g., differences in factor proportions can also affect home country employment. It is suggested that to reduce cost, outward investing firms may allocate some of their labour-intensive operations to low-wage countries and knowledge-

intensive operations to countries with large pool of skilled labour and R&D infrastructure. For example, relatively labour-scarce home countries are likely to witness reduction in the labour-intensity of production due to domestic firms relocating their labour-intensive parts of value chains to competing low-wage countries.

OFDI can also affect home country employment through its impact on home country capital formation. Assuming that resources available for national firms are fixed in a given period, then a higher level of overseas investment implies a lower level of domestic investment. Thus, a direct and proportional substitutability relationship between domestic and foreign investments can be derived. The study by Feldstein (1995) has found roughly such a substitutability relationship between outbound FDI and domestic investment in the case of USA. In this case the implication of OFDI is clearly negative for domestic employment. On the other hand, a recent study that has related the domestic capital spending of US-based multinationals with their foreign capital spending has found a complementary relationship between the two (Desai *et al*., 2005). They argued that US multinationals tend to benefit from increased cost-efficiency when they go for simultaneous expansion in domestic and foreign production capacity and which makes production process more profitable. A complementary relationship between OFDI and domestic investment is likely to have positive impact on domestic employment.

The brief discussion presented above thus suggests that there are hosts of opposite forces at work in determining the employment effect of OFDI and theoretically it is unclear whether the effect is positive or negative. As far as the impact of OFDI through trade on India's domestic employment is concerned a positive effect can be inferred. This is because of a positive impact that OFDI had on the exports from Indian economy as observed in the foregoing sub-section. Also, given the availability of low-cost labour in general and abundance of highly educated scientific and technical manpower, it is less likely that Indian OFDI projects are going abroad for reaping locational advantages of low wages and thus can lead to migration of labour-intensive production chains from India. Rather Indian OFDI can contribute towards home country employment by generating additional demand for skilled manpower like supervisors, technicians, engineers, and R&D at the headquarter so as to manage their overseas affiliates and provide them consultancy and technical services. The impact of OFDI in a given period can have negative impact on home country employment due to its negative impact on domestic investment rate. However, when the overseas subsidiaries of Indian firms start expanding over time they are likely to have positive impact on domestic investment. Their increasing demand for raw materials, stores and spares, capital goods, technology and consultancy services from India would benefit the home country considerably and

can create more domestic employment. Moreover, the returns from overseas subsidiaries like dividends and interests may also enable Indian parent firms to expand in the long run leading to more employment opportunities.

4.3.3. Home Country Technological Activities

The impact of OFDI on the technological activities of a home country is of critical importance to evaluate the overall benefits from such overseas investment. There are several ways in which OFDI can and does affect the knowledge capabilities of the parent firms. Indian outward investing firms can use OFDI, especially strategic asset seeking type, to acquire foreign technological and knowledge assets from the host country competitors. For firms headquartered in developing countries like India and lacking large-scale innovation based advantages, OFDI in brownfield form offer a way to acquire highly innovative firms based in developed countries. In this way Indian firms can quickly expand their firm-specific intangible assets to meet the growing competitive challenges thrown by the process of globalization. However, the acquisition of foreign knowledge can play a dual role in the indigenous innovative activities of Indian parent firms. Foreign knowledge possesses a possibility to substitute indigenous research activities. With the acquisition of needed skills and technologies from abroad, acquiring Indian firms may not feel the need to undertake in-house R&D activities. Another upshot of strategic asset acquisition is that Indian firms may be required to undertake further in-house R&D activities for effectively integrating acquired knowledge with them. The foreign presence through greenfield project could also generate knowledge-spillovers to the home country particularly when the host country is relatively R&D-intensive than the concerned home country.

5. Conclusion

This study had examined the changing nature and growth of Indian multinationals with a view to assessing their likely impacts on the development of both host countries and home country. The OFDI behaviour of Indian firms in the earlier periods of 1970s and 1980s, what has been termed as the First Wave, 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 firms' growth followed in India seems to have pushed these firms towards OFDI. In overwhelming 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. The equity

contribution of Indian parties in the overseas ventures was to be in the form of exports of Indian made machinery, equipment and know-how and in the form of cash transfer was normally not permitted.

However, the character of OFDI has undergone significant changes since 1990s, what has been termed as Second Wave of Indian OFDI. 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 OFDI policy has been considerably liberalized with the establishment of automatic approval route and removal of ceiling on annual investment, profitability requirement, etc. The objective of Indian OFDI policy which was inspired by the commitment to the cause of 'south-south' cooperation in the earlier period was being replaced by the cause of 'global competitiveness' of Indian firms. The liberalization of inward FDI and import policy regime has enhanced competitive pressures on Indian firms to enhance their global operations. The substantial improvements in locational advantages of Indian economy like rising foreign exchange reserve, infrastructure, skill, and institutions have all led to the growing sophistication of the ownership advantages of Indian firms in the 1990s. The globalization process has speeded up in recent years the desire of Indian firms to exploit these advantages in the global markets. Many Indian firms also have adopted overseas acquisitions as a strategy of acquiring new technologies, skills and expertise from developed countries.

Although India continued to represent an alternative source of finance and technologies, the superiority of Indian OFDI over developed country OFDI for the development of host developing countries has greatly reduced since 1990s. The emergence of majority-owned ownership patterns and growing sophistication of Indian technologies have led to a convergence process between behaviour of Indian and developed country outward investing firms. For host developed country, Indian OFDI possesses great potentials for development. The entry of Indian firms permits greater competitive markets in these countries and also provides cost-effective products and services.

The home country seems to benefit from increasing exports from OFDI with positive impact on home country employment. OFDI activities are also leading to increased stock of Indian firms' technological assets and skills. These anticipated benefits from Indian

OFDI may not be visible in the short-run and are likely to be substantial in the long run with positive impact on India's global competitiveness.

In conclusion, the growth of Indian multinationals can affect world development considerably in the long run. These new actors are likely to make world market more competitive than before and can play a significant role in the cross-border transfer of new technologies and skills originating in a faster growing developing country like India. They also offer opportunities to the global corporations to reduce their costs and benefit global consumers by providing increased number of cheap but quality products. In view of the faster growth rates and potentials of technical and industrial base of India, the activities and importance of Indian multinationals in the world economy can be predicted to grow continuously in the immediate future.

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Appendix

Table-A1
Indian OFDI stocks by host countries, In $ million, 1976–2006

Host region/economy	*OFDI Stock As on*						*Cumulative OFDI Flows*	
	1.8.1976	*31.8.1980*	*31.7.1986*	*31.12.1995*	*31.12.2000*	*28.2.2006*	*1996 to 2000*	*2000–01 to 2005–06 (February)*
World	36.47	119.02	89.91	961.39	4,100.31	17,746.86	3,138.92	13,646.59
Developed economies	3.69	5.97	1.44	392.26	1,214.70	5,708.43	822.44	4,493.74
Europe	1.97	2.25	1.06	257.64	689.78	2,402.21	432.14	1,712.43
European Union	1.97	2.24	1.04	246.98	663.95	2,262.65	416.97	1,598.70
Austria				2.26	28.54	80.01	26.28	51.47
Belgium				3.13	7.48	88.49	4.35	81.01
Cyprus		0.38	0.23	16.37	18.22	29.35	1.85	11.12
Czech Republic				0.48	0.48	1.26		0.78
Denmark					-	23.31		23.31
Finland					2.40	2.43	2.40	0.03
France		0.03	0.02	0.19	2.90	116.40	2.71	113.50
Germany	1.40	0.54	0.32	13.26	19.88	93.03	6.62	73.15
Greece		1.14	0.20	0.15	0.15	0.20		0.05
Hungary				2.12	2.53	9.41	0.41	6.88
Ireland	0.26			4.93	36.76	58.06	31.83	21.30
Italy				0.30	11.99	50.59	11.69	38.60
Luxembourg				2.36	11.36	21.56	9.00	10.20
Latvia				0.77	0.77	0.77		-
Malta					-	120.72		120.72

Host region/economy	*OFDI Stock As on*						*Cumulative OFDI Flows*	
	1.8.1976	*31.8.1980*	*31.7.1986*	*31.12.1995*	*31.12.2000*	*28.2.2006*	*1996 to 2000*	*2000–01 to 2005–06 (February)*
Netherlands		0.05	0.01	34.11	83.23	548.69	49.12	465.46
Poland				1.29	1.34	2.99	0.05	1.65
Portugal				0.05	0.05	3.06		3.01
Slovakia				0.03	0.03	0.03		-
Spain				0.33	0.55	3.25	0.22	2.70
Sweden				0.25	0.89	7.57	0.64	6.68
United Kingdom	0.31	0.10	0.26	164.61	434.41	1,001.49	269.80	567.08
Other developed Europe	-	0.01	0.02	10.66	25.83	139.57	15.17	113.74
Channel Islands	-	-	-	0.46	11.60	56.18	11.14	44.58
Gibraltar			0.01		-	-		-
Liechtenstein				0.39	0.40	0.40	0.01	-
Norway					-	0.02		0.02
Switzerland		0.01	0.02	9.81	13.83	82.97	4.02	69.14
North America	1.72	3.64	0.33	104.49	486.02	2,740.84	381.53	2,254.82
Canada	1.62	0.11		1.86	4.86	15.14	3.00	10.28
United States	0.10	3.53	0.33	102.63	481.16	2,725.71	378.53	2,244.54
Other developed countries	-	0.09	0.06	30.12	38.89	565.37	8.77	526.48
Australia		0.09	0.06	1.52	4.13	525.20	2.61	521.07
Israel				19.36	22.24	22.92	2.88	0.68
Japan				9.24	12.40	15.85	3.16	3.45
New Zealand					0.12	1.40	0.12	1.28

Host region/economy	*OFDI Stock As on*						*Cumulative OFDI Flows*	
	1.8.1976	*31.8.1980*	*31.7.1986*	*31.12.1995*	*31.12.2000*	*28.2.2006*	*1996 to 2000*	*2000–01 to 2005–06 (February)*
Developing economies	32.78	110.58	86.58	518.87	2,795.10	8,961.84	2,276.23	6,166.78
Africa	8.70	34.33	32.42	76.83	407.25	3,618.20	330.42	3,210.95
North Africa	-	0.13	1.07	2.39	40.01	1,879.49	37.62	1,839.48
Algeria					-	1.03		1.03
Egypt			1.07	2.39	7.52	14.07	5.13	6.55
Libyan Arab Jamahiriya		0.13			-	55.28		55.28
Morocco					32.49	32.49	32.49	-
Sudan					-	1,776.63		1,776.63
Other Africa	8.70	34.21	31.35	74.44	367.24	1,738.71	292.80	1,371.47
West Africa	0.52	18.05	18.71	5.97	34.81	72.73	28.84	37.92
Burkina Faso					-	0.05		0.05
Côte d' Ivoire					0.01	14.10	0.01	14.09
Ghana				0.04	0.04	1.40		1.36
Liberia		0.87	0.77		0.28	0.28	0.28	-
Niger					-	0.01		0.01
Nigeria	0.52	17.18	6.73	1.86	8.17	29.57	6.31	21.40
Senegal			11.21	4.07	26.31	27.31	22.24	1.00
Sierra Leone					-	0.01		0.01
Central Africa	-	-	-	-	-	0.26	-	0.26
Cameroon					-	0.04		0.04
Congo					-	0.22		0.22

Host region/economy	OFDI Stock As on						Cumulative OFDI Flows	
	1.8.1976	31.8.1980	31.7.1986	31.12.1995	31.12.2000	28.2.2006	1996 to 2000	2000–01 to 2005–06 (February)
East Africa	8.18	16.09	12.64	66.30	309.77	1,624.26	243.47	1,314.49
Ethiopia					-	3.90		3.90
Kenya	6.03	12.74	9.42	12.24	24.77	28.38	12.53	3.61
Madagascar					0.03	0.03	0.03	-
Mauritius	1.29	1.49	0.57	49.91	271.55	1,566.51	221.64	1,294.96
Mozambique				0.23	0.23	10.29		10.07
Seychelles		0.87	2.43	0.88	0.88	0.88		-
Uganda	0.33	0.36	0.22	2.12	4.51	4.76	2.39	0.25
Tanzania	-	-	-	0.14	3.56	4.69	3.42	1.13
Zambia	0.54	0.63		0.64	2.99	3.10	2.35	0.11
Zimbabwe				0.14	1.25	1.73	1.11	0.48
Southern Africa	-	0.06	-	2.17	22.66	41.46	20.49	18.80
Botswana		0.06		0.00	0.23	3.55	0.23	3.32
Namibia				0.19	0.25	0.25	0.06	0.00
South Africa				1.97	22.17	37.65	20.20	15.48
Latin America and the Caribbean	-	-	-	16.79	959.00	1,845.49	942.21	886.48
South and Central America	-	-	-	6.81	26.91	133.36	20.10	106.44
South America	-	-	-	0.14	19.21	103.88	19.07	84.67
Argentina					0.30	0.30	0.30	-
Brazil					2.54	55.42	2.54	52.88

Host region/economy	OFDI Stock As on						Cumulative OFDI Flows	
	1.8.1976	*31.8.1980*	*31.7.1986*	*31.12.1995*	*31.12.2000*	*28.2.2006*	*1996 to 2000*	*2000–01 to 2005–06 (February)*
Colombia					16.23	16.23	16.23	-
Guyana				0.14	0.14	0.14		-
Uruguay					-	31.79		31.79
Central America	-	-	-	6.68	7.71	29.47	1.03	21.77
Belize					0.36	0.36	0.36	-
Honduras					-	0.20		0.20
Mexico				4.64	4.64	7.00		2.36
Panama				2.04	2.71	21.91	0.67	19.21
Caribbean and other America	-	-	-	9.98	932.09	1,712.13	922.11	780.04
Bahamas				0.86	0.87	0.89	0.01	0.02
Bermuda					156.90	656.85	156.90	499.95
British Virgin Islands					752.08	945.70	752.08	193.62
Cayman Islands				9.12	20.15	105.95	11.03	85.80
Saint Vincent and the Grenadines					-	0.05		0.05
Trinidad and Tobago					2.09	2.69	2.09	0.60
Asia and Oceania	24.08	76.25	54.16	425.25	1,428.85	3,498.15	1,003.60	2,069.35
Asia	23.66	76.10	53.62	425.12	1,428.72	3,495.55	1,003.60	2,066.87
West Asia	2.09	6.48	3.11	173.90	497.44	931.29	323.54	433.85
Bahrain		0.01	0.62	3.26	11.82	17.03	8.56	5.21

Host region/economy	OFDI Stock As on						Cumulative OFDI Flows	
	1.8.1976	*31.8.1980*	*31.7.1986*	*31.12.1995*	*31.12.2000*	*28.2.2006*	*1996 to 2000*	*2000–01 to 2005–06 (February)*
Iran	0.17	0.09		0.68	59.83	147.83	59.15	88.00
Iraq					-	5.00		5.00
Jordan				23.15	23.18	23.18	0.03	-
Kuwait		0.02	0.19	0.51	12.32	14.46	11.81	2.14
Oman	0.09	2.98	0.28	0.89	140.69	215.24	139.80	74.55
Qatar		0.06			-	0.32		0.32
Saudi Arabia	0.05	1.66	0.99	18.54	35.46	40.86	16.92	5.40
Syrian Arab Republic					-	9.45		9.45
Turkey					0.06	0.30	0.06	0.24
United Arab Emirates	1.78	1.66	1.04	126.86	214.07	457.62	87.21	243.54
South, East and South-East Asia	21.57	69.63	50.51	251.22	931.28	2,564.26	680.06	1,633.03
East Asia	0.09	0.08	0.06	53.60	462.54	909.11	408.94	446.57
China				10.51	27.59	201.44	17.08	173.85
Hong Kong, China	0.09	0.08	0.06	42.89	434.30	653.74	391.41	219.43
Korea, North					-	51.51		51.51
Korea, South				0.15	0.60	2.15	0.45	1.55
Mongolia				0.05	0.05	0.05		-
Taiwan (China)					-	0.23		0.23
South Asia	0.14	11.34	3.59	58.08	174.80	343.13	116.72	168.34
Afghanistan	0.07				-	0.06		0.06

Host region/economy	OFDI Stock As on						Cumulative OFDI Flows	
	1.8.1976	*31.8.1980*	*31.7.1986*	*31.12.1995*	*31.12.2000*	*28.2.2006*	*1996 to 2000*	*2000–01 to 2005–06 (February)*
Bangladesh		0.23		3.27	16.72	27.51	13.45	10.80
Maldives				1.04	7.04	22.04	6.00	15.00
Nepal		5.96	1.40	13.49	58.94	101.84	45.45	42.90
Pakistan					-	5.00		5.00
Sri Lanka	0.07	5.15	2.18	40.28	92.10	186.69	51.82	94.58
South-East Asia	21.35	58.21	46.86	139.54	293.94	1,312.02	154.40	1,018.12
Cambodia					-			0.04
Indonesia	7.13	24.27	15.38	19.39	27.20	147.74	7.81	120.54
Malaysia	11.63	18.74	11.71	27.31	60.36	78.78	33.05	18.41
Myanmar				0.45	2.96	12.83	2.51	9.87
Philippines	1.26	1.72	0.32	0.39	0.39	9.15		8.77
Singapore	1.33	3.25	6.78	78.36	166.88	766.26	88.52	599.38
Thailand		10.23	12.67	12.05	34.12	66.66	22.07	32.54
Viet Nam				1.59	2.03	230.60	0.44	228.57
Oceania	0.42	0.14	0.54	0.13	0.13	2.60	-	2.48
Fiji	0.42	0.14	0.11	0.06	0.06	0.06		-
Solomon Islands			0.42	0.02	0.02	0.02		-
Tonga			0.02	0.01	0.01	0.01		-
Vanuatu				0.04	0.04	2.52		2.48
South-East Europe and CIS	-	2.47	1.88	50.26	90.51	3,076.58	40.25	2,986.07
South-East Europe	-	2.47	1.88	0.75	0.75	11.36	-	10.61

Host region/economy	*OFDI Stock As on*						*Cumulative OFDI Flows*	
	1.8.1976	*31.8.1980*	*31.7.1986*	*31.12.1995*	*31.12.2000*	*28.2.2006*	*1996 to 2000*	*2000–01 to 2005–06 (February)*
Bosnia and Herzegovina		2.47	1.88	0.55	0.55	0.55		-
Bulgaria				0.20	0.20	0.20		-
Romania					-	10.61		10.61
CIS	-	-	-	49.51	89.76	3,065.23	40.25	2,975.46
Azerbaijan				0.56	0.57	2.62	0.01	2.05
Belarus				0.16	0.16	0.16		-
Georgia				0.65	0.65	0.78		0.13
Kazakhstan				17.70	20.86	150.92	3.16	130.06
Kyrgyzstan	-	-	-	-	7.59	13.03	7.59	5.44
Moldova					-	5.25		5.25
Russian Fed.				19.84	23.11	2,847.59	3.27	2,824.48
Tajikistan				0.96	1.06	1.36	0.10	0.30
Turkmenistan				2.69	2.69	2.69		-
Ukraine				0.18	0.88	4.84	0.70	3.96
Uzbekistan				6.77	32.19	35.98	25.42	3.79

Note and Source: Same as for Table-1.

Table-A2
Distribution of Indian OFDI stocks by host countries, In per cent, 1976–2006

Host region/economy	*Stocks As on*						*Cumulative Outward Flows*	
	1.8.1976	*31.8.1980*	*31.7.1986*	*31.12.1995*	*31.3.2000*	*28.2.2006*	*1996 to 2000*	*2000–01 to 2005–06 (February)*
Bahamas	-	-	-	0.09	0.02	0.01	0.00	0.00
Bermuda	-	-	-	-	3.83	3.70	5.00	3.66
British Virgin Islands	-	-	-	-	18.34	5.33	23.96	1.42
Cambodia	-	-	-	-	-	-	-	0.00
CaymanIslands	-	-	-	0.95	0.49	0.60	0.35	0.63
Indonesia	19.56	20.39	17.11	2.02	0.66	0.83	0.25	0.88
Malaysia	31.88	15.74	13.03	2.84	1.47	0.44	1.05	0.13
Myanmar	-	-	-	0.05	0.07	0.07	0.08	0.07
Saint Vincent and the Grenadines	-	-	-	-	-	0.00	-	0.00
Trinidad and Tobago	-	-	-	-	0.05	0.02	0.07	0.00
Vie tNam	-	-	-	0.17	0.05	1.30	0.01	1.67
Canada	4.44	0.09	-	0.19	0.12	0.09	0.10	0.08
Philippines	3.46	1.44	0.35	0.04	0.01	0.05	-	0.06
Singapore	3.63	2.73	7.54	8.15	4.07	4.32	2.82	4.39
Thailand	-	8.60	14.09	1.25	0.83	0.38	0.70	0.24
United States	0.27	2.97	0.36	10.68	11.73	15.36	12.06	16.45
Afghanistan	0.19	-	-	-	-	0.00	-	0.00
Algeria	-	-	-	-	-	0.01	-	0.01
Argentina	-	-	-	-	0.01	0.00	0.01	-

Host region/economy	*Stocks As on*						*Cumulative Outward Flows*	
	1.8.1976	*31.8.1980*	*31.7.1986*	*31.12.1995*	*31.3.2000*	*28.2.2006*	*1996 to 2000*	*2000–01 to 2005–06 (February)*
Australia	-	0.07	0.06	0.16	0.10	2.96	0.08	3.82
Austria	-	-	-	0.24	0.70	0.45	0.84	0.38
Azerbaijan	-	-	-	0.06	0.01	0.01	0.00	0.02
Bahrain	-	0.01	0.69	0.34	0.29	0.10	0.27	0.04
Bangladesh	-	0.19	-	0.34	0.41	0.16	0.43	0.08
Belarus	-	-	-	0.02	0.00	0.00	-	-
Belgium	-	-	-	0.33	0.18	0.50	0.14	0.59
Belize	-	-	-	-	0.01	0.00	0.01	-
Bosnia and Herzegovina	-	2.07	2.09	0.06	0.01	0.00	-	-
Botswana	-	0.05	-	0.00	0.01	0.02	0.01	0.02
Brazil	-	-	-	-	0.06	0.31	0.08	0.39
Bulgaria	-	-	-	0.02	0.00	0.00	-	-
Burkina Faso	-	-	-	-	-	0.00	-	0.00
Cameroon	-	-	-	-	-	0.00	-	0.00
Channel Islands	-	-	-	0.05	0.28	0.32	0.35	0.33
China	-	-	-	1.09	0.67	1.14	0.54	1.27
Colombia	-	-	-	-	0.40	0.09	0.52	-
Congo	-	-	-	-	-	0.00	-	0.00
Côted'Ivoire	-	-	-	-	0.00	0.08	0.00	0.10
Cyprus	-	0.32	0.26	1.70	0.44	0.17	0.06	0.08
Czech Republic	-	-	-	0.05	0.01	0.01	-	0.01
Denmark	-	-	-	-	-	0.13	-	0.17

Host region/economy	*Stocks As on*						*Cumulative Outward Flows*	
	1.8.1976	*31.8.1980*	*31.7.1986*	*31.12.1995*	*31.3.2000*	*28.2.2006*	*1996 to 2000*	*2000–01 to 2005–06 (February)*
Egypt	-	-	1.18	0.25	0.18	0.08	0.16	0.05
Ethiopia	-	-	-	-	-	0.02	-	0.03
Fiji	1.14	0.12	0.12	0.01	0.00	0.00	-	-
Finland	-	-	-	-	0.06	0.01	0.08	0.00
France	-	0.03	0.02	0.02	0.07	0.66	0.09	0.83
Georgia	-	-	-	0.07	0.02	0.00	-	0.00
Germany	3.84	0.46	0.35	1.38	0.48	0.52	0.21	0.54
Ghana	-	-	-	0.00	0.00	0.01	-	0.01
Gibraltar	-	-	0.01	-	-	-	-	-
Greece	-	0.96	0.22	0.02	0.00	0.00	-	0.00
Guyana	-	-	-	0.01	0.00	0.00	-	-
Honduras	-	-	-	-	-	0.00	-	0.00
Hong Kong, China	0.25	0.07	0.07	4.46	10.59	3.68	12.47	1.61
Hungary	-	-	-	0.22	0.06	0.05	0.01	0.05
Iran, Islamic Rep. of	0.47	0.08	-	0.07	1.46	0.83	1.88	0.64
Iraq	-	-	-	-	-	0.03	-	0.04
Ireland	0.71	-	-	0.51	0.90	0.33	1.01	0.16
Israel	-	-	-	2.01	0.54	0.13	0.09	0.00
Italy	-	-	-	0.03	0.29	0.29	0.37	0.28
Japan	-	-	-	0.96	0.30	0.09	0.10	0.03
Jordan	-	-	-	2.41	0.57	0.13	0.00	-
Kazakhstan	-	-	-	1.84	0.51	0.85	0.10	0.95

Host region/economy	Stocks As on						Cumulative Outward Flows	
	1.8.1976	*31.8.1980*	*31.7.1986*	*31.12.1995*	*31.3.2000*	*28.2.2006*	*1996 to 2000*	*2000–01 to 2005–06 (February)*
Kenya	16.53	10.70	10.48	1.27	0.60	0.16	0.40	0.03
Korea, Dem. People's Rep.	-	-	-	-	-	0.29	-	0.38
Korea, Rep.of	-	-	-	0.02	0.01	0.01	0.01	0.01
Kuwait	-	0.02	0.21	0.05	0.30	0.08	0.38	0.02
Kyrgyzstan	-	-	-	-	0.19	0.07	0.24	0.04
Latvia	-	-	-	0.08	0.02	0.00	-	-
Liberia	-	0.73	0.86	-	0.01	0.00	0.01	-
Libyan Arab Jamahiriya	-	0.11	-	-	-	0.31	-	0.41
Liechtenstein	-	-	-	0.04	0.01	0.00	0.00	-
Luxembourg	-	-	-	0.25	0.28	0.12	0.29	0.07
Madagascar	-	-	-	-	0.00	0.00	0.00	-
Maldives	-	-	-	0.11	0.17	0.12	0.19	0.11
Malta	-	-	-	-	-	0.68	-	0.88
Mauritius	3.53	1.25	0.63	5.19	6.62	8.83	7.06	9.49
Mexico	-	-	-	0.48	0.11	0.04	-	0.02
Moldova, Republic of	-	-	-	-	-	0.03	-	0.04
Mongolia	-	-	-	0.00	0.00	0.00	-	-
Morocco	-	-	-	-	0.79	0.18	1.04	-
Mozambique	-	-	-	0.02	0.01	0.06	-	0.07
Namibia	-	-	-	0.02	0.01	0.00	0.00	0.00
Nepal	-	5.00	1.56	1.40	1.44	0.57	1.45	0.31

Host region/economy	*Stocks As on*						*Cumulative Outward Flows*	
	1.8.1976	*31.8.1980*	*31.7.1986*	*31.12.1995*	*31.3.2000*	*28.2.2006*	*1996 to 2000*	*2000–01 to 2005–06 (February)*
Netherlands	-	0.04	0.01	3.55	2.03	3.09	1.56	3.41
New Zealand	-	-	-	-	0.00	0.01	0.00	0.01
Niger	-	-	-	-	-	0.00	-	0.00
Nigeria	1.42	14.43	7.48	0.19	0.20	0.17	0.20	0.16
Norway	-	-	-	-	-	0.00	-	0.00
Oman	0.25	2.50	0.31	0.09	3.43	1.21	4.45	0.55
Pakistan	-	-	-	-	-	0.03	-	0.04
Panama	-	-	-	0.21	0.07	0.12	0.02	0.14
Poland	-	-	-	0.13	0.03	0.02	0.00	0.01
Portugal	-	-	-	0.00	0.00	0.02	-	0.02
Qatar	-	0.05	-	-	-	0.00	-	0.00
Romania	-	-	-	-	-	0.06	-	0.08
Russian Federation	-	-	-	2.06	0.56	16.05	0.10	20.70
Saudi Arabia	0.13	1.40	1.10	1.93	0.86	0.23	0.54	0.04
Senegal	-	-	12.47	0.42	0.64	0.15	0.71	0.01
Seychelles	-	0.73	2.70	0.09	0.02	0.00	-	-
Sierra Leone	-	-	-	-	-	0.00	-	0.00
Slovakia	-	-	-	0.00	0.00	0.00	-	-
Solomon Islands	-	-	0.46	0.00	0.00	0.00	-	-
South Africa	-	-	-	0.21	0.54	0.21	0.64	0.11
Spain	-	-	-	0.03	0.01	0.02	0.01	0.02
Sri Lanka	0.18	4.33	2.43	4.19	2.25	1.05	1.65	0.69

Host region/economy	*Stocks As on*						*Cumulative Outward Flows*	
	1.8.1976	*31.8.1980*	*31.7.1986*	*31.12.1995*	*31.3.2000*	*28.2.2006*	*1996 to 2000*	*2000–01 to 2005–06 (February)*
Sudan	-	-	-	-	-	10.01	-	13.02
Sweden	-	-	-	0.03	0.02	0.04	0.02	0.05
Switzerland	-	0.00	0.02	1.02	0.34	0.47	0.13	0.51
Syrian Arab Republic	-	-	-	-	-	0.05	-	0.07
Taiwan Province of China	-	-	-	-	-	0.00	-	0.00
Tajikistan	-	-	-	0.10	0.03	0.01	0.00	0.00
Tonga	-	-	0.02	0.00	0.00	0.00	-	-
Turkey	-	-	-	-	0.00	0.00	0.00	0.00
Turkmenistan	-	-	-	0.28	0.07	0.02	-	-
Uganda	0.89	0.30	0.25	0.22	0.11	0.03	0.08	0.00
Ukraine	-	-	-	0.02	0.02	0.03	0.02	0.03
United Arab Emirates	4.88	1.39	1.15	13.20	5.22	2.58	2.78	1.78
United Kingdom	0.86	0.08	0.29	17.12	10.59	5.64	8.60	4.16
United Rep.of Tanzania	-	-	-	0.01	0.09	0.03	0.11	0.01
Uruguay	-	-	-	-	-	0.18	-	0.23
Uzbekistan	-	-	-	0.70	0.79	0.20	0.81	0.03
Vanuatu	-	-	-	0.00	0.00	0.01	-	0.02
Zambia	1.48	0.53	-	0.07	0.07	0.02	0.07	0.00
Zimbabwe	-	-	-	0.01	0.03	0.01	0.04	0.00
World	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Based on Appendix Table-A1.

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