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Indian Direct Investment in Developed Region

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Abstract: Indian FDI, over the years, has consistently shifted towards developed region. As a result, developed region emerged as the largest host to Indian investment during 2000–07. An increasing number of firms from a wide range of economic activities are now undertaking FDI projects into developed countries. Considering this, the present study has explored the growth of developed region bound Indian FDI since 1960s and explored various developmental impacts they have on host economies. It is argued that Indian FDI can make contribution to development by making host country markets more competitive, reducing cost of products and services and increasing the range of consumer choice. However, the negative short-run impact of brownfield form of Indian FDI on local R&D and employment is clearly acknowledged.

1. Introduction

The internationalization behaviour of Indian enterprises have undergone some remarkable transformations in the last 15 years. Previously, exports were the predominant mode of these enterprises participating in the world market but currently outward investment has emerged as the most frequently pursued firm-level internationalization strategy. As compared to the past, large number of Indian companies are undertaking massive quantum of outward foreign direct investment (OFDI) since 1990s and are increasing their role and presence in different segments of global markets. The current phase of outward FDI from India tends to defy all the traditional wisdom about developing country multinationals such as carrying out their activities mostly within developing region (i.e., intra-regional), overwhelmingly for establishing joint ventures with local partners as opposed to full ownership and also tends to dominate industries with well-diffused and standardized technologies. Contrary to these characterizations, increased outward investment activities of Indian firms are led by widely spread economic sectors including knowledge-based industries with strong preference for wholly-owned subsidiaries and relatively more oriented towards developed countries.

These changing internationalization profiles of Indian firms give ample justification for researchers and policy markers across the globe to understand the behaviours of these emerging global players. Since OFDI by Indian firms are growing rapidly in developed region, the present study proposes to examine the growth of Indian multinationals focused on developed countries. Apart from presenting a quantitative assessment of growth of Indian FDI into developed region over a long period from 1960s to 2007, it identifies major Indian players and their changing OFDI behaviours in terms of ownership choice, form (greenfield versus acquisitions), location and sectoral operation. This study also explores underlying driving factors that influenced Indian FDI into developed countries and emerging development issues for host developed region.

2. Size and Trends of Greenfield Investment

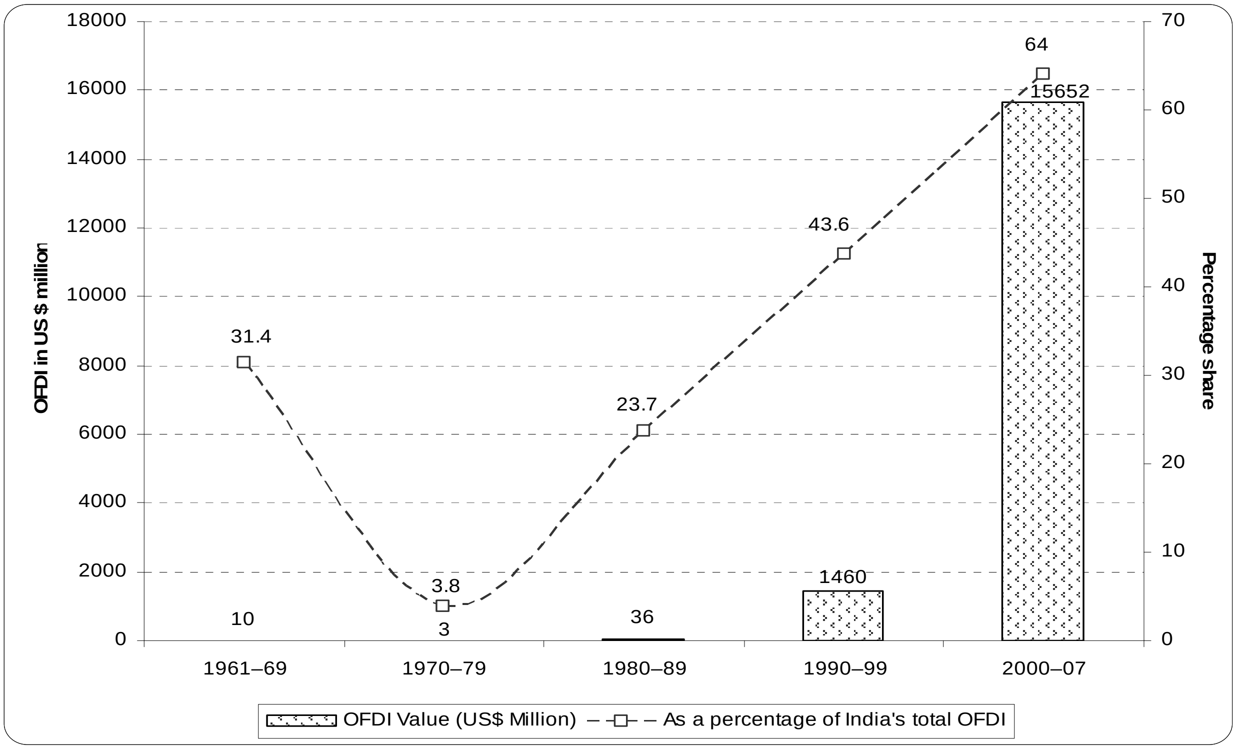
The origin of Indian FDI in developed region can be traced back to 1961 when the Tata group invested US $7.4 million in Switzerland for establishing a wholly-owned subsidiary (WOS), namely Tata International AG. This overseas affiliate was established to provide sales and distributional support to exported industrial and non-industrial products from India and to represent the Tata Group in the European market. The next cases of Indian FDI in developed region took place in 1965 when a total of three Indian companies undertook direct investment for transnationalizing their businesses. Dodsal Private Limited and Kirloskar Oil Engines Limited respectively set up a WOS and joint venture (JV) in Germany. The outward investment of US $1.4 million by the Dodsal Group (owned by the Kilachand family) was for providing engineering services, particularly welding contracts. The overseas subsidiary was also expected to help the Dodsal in its trading activities—importing and distributing industrial machinery, industrial products and raw materials into India. The Kirloskar Group invested about US $0.6 million in acquiring 47.5 per cent stake in FH Schule Gmbh—a company producing plants and machines for rice processing. This is primarily a trading and marketing venture that has been undertaken with a view to import machinery and assembles diesel plants produced by the acquired foreign entity. Third company that had invested abroad in 1965 was Raymonds Woolen Mills Limited, a part of JK Singhania group, which undertook an investment of US $19600 for starting a WOS in Switzerland. Another two Indian companies had invested in developed region during 1967–68. Shanudeep Limited established a wholly-owned trading subsidiary in Switzerland and MN Dastur & Company started its wholly-owned consultancy subsidiary in Germany.

Clearly, the early Indian FDI projects in developed region were largely into service activities like trading, consultancy and construction rather than into manufacturing sector. Europe led by Switzerland and Germany was the initial destination for these developed region oriented Indian FDI projects. Large business conglomerate group like the Tata, JK Singhania, Kirloskar and Dodsal actively led to the emergence of Indian FDI into developed region. Finally, investing Indian companies in majority of their OFDI projects opted for full ownership.

As compared to US $10 million FDI flows in 1960s, Indian FDI into developed region declined in 1970s to US $3 million and then recovered to US $36 million in 1980s (Table-1). This sizeable decline in Indian FDI in developed region during 1970s seems to be contributed by a variety of contributory factors but main three causes are decline in the competitiveness of Indian enterprises on account of low productivity and poor quality, rigorous screening of OFDI projects by home country regulatory authorities to minimize the high mortality rate of Indian OFDI projects and decline in the average size of FDI projects undertaken by investing Indian parent companies.

The growth of developed region oriented Indian FDI was relatively rapid since 1990s. Between 1980s and 1990s, Indian FDI increased roughly 41-fold in value terms to US $1.5 billion in 1990s. The rapid growth rate of Indian FDI continued in 2000–2007 and Indian companies invested US $15.7 billion in developed region. This impressive growth of Indian FDI has been led by an increasing number of Indian parent companies targeting growing number of host developed countries. The number of Indian parent companies investing in developed region has gone up from 55 in 1980s to 687 in 1990s and further to 1327 in 2000–2007. The operation of these Indian companies spread to 30 host developed countries during 1961–2007. This led to the emergence of developed region as the largest host region of Indian OFDI in 2000–2007 overtaking developing region. The share of developed region in total Indian FDI outflows has consistently gone up from 4 per cent in 1970s to 43.6 per cent in 1990s and further to the highest share of 64 per cent in 2000s (Figure-1).

Figure-1 Indian FDI in Developed Region, 1961–2007 (US $ million)



Note & Source: Same as Table-1.

Table-1 Trends of Indian FDI Flows into Developed Region, 1961–2007

Period	FDI Value (US $ Million)	No. of Indian Investing Firms	No. of Host Countries
1961–69	10	6	2
1970–79	3	9	2
1980–89	36	55	9
1990–99	1460	687	27
2000–07**	15652	1,327	28
All Years	17162	1,866	30

Note: * Data for 2001 is only from January to March, 2002 is from October to December and 2007 data is from January to March; Developed region includes countries classified as developed by the UNCTAD in World Investment Report 2006.

Source: Calculation based on a dataset compiled from unpublished remittance-wise information from Reserve Bank of India, published reports of Indian investment centre and unpublished firm-level information from Ministry of Commerce.

The growing engagement of Indian firms in developed region through OFDI is driven by a number of causal factors. The heightened competition among domestic firms contributed by internal industrial policy reforms and transmission of intense international competitive pressures into domestic markets through cheap imports and entry of foreign companies have necessitated enlargement of firms' market focus from local to global markets. Many capable Indian companies have responded with OFDI to tap business opportunities thrown open by large-scale reduction in barriers to accessing overseas markets. Developed region with their large domestic markets seems to be attractive to these internationalizing Indian companies. The service sector dominated developed economies are also relatively attractive to large number of service Indian companies from a range of sectors like software, hotel, consultancy, etc., that are emerging as global players. The mounting competitive pressures generated by policy liberalization continue to force Indian companies to invest in accessing new knowledge resources and intangible assets. Innovation driven developed region is clearly the natural choice for such overseas acquiring Indian companies.

2.1. Destinations

With the phenomenal growth of Indian FDI in developed region, the operation of Indian parent companies assumed a widely diversified cross-country geographical profile. The greenfield OFDI operation of Indian firms in developed region rose significantly from 2 host countries in 1970s to 28 host countries in 2000–2007. Between 1961 and 2007, a total of 30 developed countries hosted FDI projects by 1866 Indian parent companies (Table-1).

The largest flows of Indian investment within the developed region went to European Union. Since 1970s European Union remained the leading sub-regional host of Indian FDI, accounting for 76 per cent of the total developed region bound Indian investment in 1961–2007 (Table-2). In European Union, UK alone accounted for more than half of the total Indian investment estimated at US $9.2 billion. In fact India emerged as the second biggest FDI source to London accounting for 16 per cent of foreign investment in London during 2003–2007[1]. For Indian companies operating in developed region UK has been an early destination since 1975. UK with common institutional and legal system, cultural and historical links and familiarity in language turned out to be a natural choice for Indian companies, which were first time internationalizers. Majority of these early investors were from service sector and they continued to dominate Indian investment in UK during 1970s–1990s. However, Indian companies from primary and manufacturing sectors have overtaken the service Indian companies in 2000–2007.

About 47 per cent of Indian service investment in UK has gone into film, entertainment and broadcasting segment. As many as 18 Indian companies have invested in this sector but Zee Telefilms Limited is the largest investor with US $701 million. These Indian companies are clearly motivated to serve media and entertainment demand emanating from a sizeable chunk of British Asians, particularly Indian origin population in UK and across Europe. Software and IT (information technologies) segment turns out to be the second important sector for service Indian investments in UK with 21 per cent share. A total of 146 Indian software companies have invested an aggregate sum of US $321 million during 1993–2007. Tata Consultancy Services, Satyam Computer Services, Mphasis BFL, Subex Systems, Applabs Technologies and Melstar Information Technology are major investing Indian software companies in UK. The key drivers for Indian software investments in UK are significant growth opportunity in Europe's largest IT market and strategic behaviour of Indian software companies to decrease their heavy dependence on a single country, namely the US. Indian investment in UK's manufacturing sector is fuelled by investments in food and beverages, pharmaceuticals and computer & electronics. These three industries account for 76 per cent of Indian manufacturing investment in UK. Indian investment in UK's gas and petroleum sector appear to have soared with US $6.5 billion investment in 2000–2007. This is mainly on account of restructuring implemented by the Cairn Energy Group in which its Indian subsidiary Cairn India Limited acquired 100 per cent ownership of the Jersey Channel Island-based Cairns India Holdings Limited—a wholly-owned indirect subsidiary of

[1] BBC News (2007), 'Indian investment in London jumps', April 27.

Cairn Energy Group by cash transfer rather than for actually undertaking any oil exploration activities[2].

Table-2 Regional Distribution of Indian FDI in Developed Region, 1961–2007

Region/Country	FDI flows in $ million							No. of Investing Firms
	1961–69	1970–79	1980–89	1990–99	2000–07	All Years		
						Value	Per cent	
Developed Region	10	3	36	1460	15652	17162	100	1866
European Union	2	3	18	1021	12061	13105	76.36	857
Austria				37	5	42	0.24	12
Belgium & Luxembourg				17	187	204	1.19	41
Cyprus				20	1359	1379	8.04	36
Czech Republic				1	35	36	0.21	5
Denmark					27	27	0.16	5
Finland				2	0.04	2	0.01	4
France			0.01	3	109	112	0.65	28
Germany	2		0.2	24	138	164	0.96	131
Greece			0.3	3	0.2	3	0.02	2
Hungary			0.2	3	2	5	0.03	9
Ireland				38	13	51	0.30	13
Italy			0.01	12	42	54	0.31	16
Latvia				1	0.3	1	0.01	2
Malta					64	64	0.38	1
The Netherlands			0.01	57	1701	1759	10.25	79
Poland				1	2	4	0.02	9
Portugal				0.1	0.01	0.1	0.00	2
Slovakia				0.03		0.03	0.00	1
Spain				1	13	13	0.08	10
Sweden				3	10	12	0.07	8
UK		3	17	798	8353	9171	53.44	531
Other developed Europe	8		0	8	175	191	1.12	49
Liechtenstein				0.5		0.5	0.00	3
Norway					0.4	0.4	0.00	2
Switzerland	8		0.4	7	175	191	1.11	44
North America		0.1	17	388	2815	3221	18.77	1,156
Canada				5	411	416	2.42	45
USA		0.1	17	384	2404	2805	16.35	1124
Other developed countries				43	601	645	3.76	104
Australia				3	596	599	3.49	74
Israel				25	1	26	0.15	5
Japan				15	5	19	0.11	24
New Zealand				0.1	1	1	0.00	7

Note & Source: Same as Table-1.

[2] Hindu Business Line (2006), 'Cairns to await valuation by market in cash cum share swap deal', November 05.

The Netherlands is the second important European Union host to Indian FDI. It has attracted a total of US $1.6 billion investment made by a group of 79 Indian parent companies. Since Indian firms started investing in 1989, Indian FDI in the Netherlands exhibited rising trend from 1993 onwards. Most of the Indian investments in the Netherlands were confined to just two economic sectors, namely services (US $893 million, 51 per cent) and manufacturing (US $845 million, 48 per cent). Financial and insurance services received the largest share of total service investment (77 per cent), followed by software segment with 22 per cent share. In total manufacturing investment, pharmaceuticals (66 per cent), electrical machinery & equipment (17 per cent) and basic metals (6 per cent) were major attractive industries for investing Indian companies. Indian FDI in the Netherlands is expected to be buoyant in coming years given the favourable incentive regime that it has with India like a double taxation avoidance agreement since 1988, an investment protection agreement since 1995 and a strong trade relationship.

North America emerged as the second largest recipient of Indian FDI in developed region after European Union. Indian FDI inflows to North America have grown significantly from US $388 million in 1990s to US $2815 million in 2000–2007, pushing up the stock of Indian investment to US $3.2 billion. This growing volume of Indian investment in this developed sub-region is being accompanied by sustained rise in the number of Indian parent companies to reach 1156. USA is the major North American host country with US $2.8 billion of Indian investment undertaken by a total of 1124 Indian parent companies during 1973–2007. The bulk of Indian investment in US is concentrated in the service sector, which alone accounted for 66 per cent share. Inflows into US manufacturing sector account for 33 per cent share of the total Indian investment. Software and IT segment is the most favoured service activity with US $1.4 billion of investment (nearly 74 per cent of the total service Indian investment in US). Health services with US $167 million and financial services with US $152 million are other attractive services sectors for Indian investment in US. Important recipient activities in US manufacturing sector are pharmaceuticals (US $355 million), transport equipment (US $84 million), metal products (US $79 million), machinery & equipment (US $71 million) and gems & jewellery (US $66 million). Apart from accessing world's largest market, direct investments in US permit Indian companies to build trade supporting infrastructure and to leverage US innovation system for improving their own global competitiveness.

The share of other two developed sub-regions, namely other developed Europe and other developed countries are minimal in developed region oriented Indian investment. Their percentage shares stood at 1 per cent and 4 per cent respectively.

2.2. Sectoral Distribution

The sectoral profile of Indian greenfield investment in developed region has also undergone some significant changes recently. The most notable trend is that manufacturing emerges as the greater attractive host sector than service sector in 2000–2007. This trend is particularly distinct since throughout 1960s–1990s the share of manufacturing sector in Indian FDI was well behind service sector's share. This trend reflect that Indian manufacturing firms undertaking OFDI have broken the past regional pattern of concentration in developing region to be relatively more active in developed region as well. This spurt of Indian investments into manufacturing sector of developed region is partly contributed by growing sophistication of firm-specific advantages of Indian firms and liberalization infused global competition pressuring them to seek new markets. The primary sector led by oil and gas segment emerged as the top sectoral destination of Indian investment in developed region with 41 per cent share during 1961–2007 (Table-3). However, this figure is misleading since about US $6.5 billion investment (96 per cent of the total oil and gas Indian investment) done by Cairn India Limited was not for actually undertaking any oil exploration activities—a point made earlier in the case of UK. Excluding this particular investment, the oil and gas investment of US $268 million hardly account for 2.5 per cent of adjusted total Indian investment in developed region.

Table-3 Sectoral Composition of Indian FDI in Developed Region, 1961–2007

Industry	FDI flows in $ million							No. of Firms	No. of Countries
	1961–69	1970–79	1980–89	1990–99	2000–07	All Years			
						Value	Per cent		
Primary				13	6966	6979	40.67	48	8
Agriculture & allied products				12	22	34	0.20	31	7
Ores & Minerals				1	217	218	1.27	4	3
Gas, Petroleum and related products				0.1	6727	6727	39.20	14	5
Manufacturing	1	1	10	501	4468	4981	29.02	864	29
Food, beverages and tobacco		1	2	19	421	443	2.58	72	17
Textiles and wearing apparel	0.02	1	0.5	77	153	231	1.35	180	18
Wood & wood products				2	0.5	3	0.02	4	3
Paper and paper products				0.3	18	18	0.10	10	6
Printing and publication			0.01	2	15	17	0.10	20	5
Gems and jewellery				30	85	116	0.67	68	11
Leather and related products			0.2	18	6	24	0.14	41	16
Rubber and plastic products			0.01	4	45	49	0.29	30	11
Non-metallic mineral products				2	45	46	0.27	27	9
Basic metals and fabricated metal product		0.1	0.4	64	364	429	2.50	62	12
Machinery and equipment	1		1	41	177	219	1.28	57	13
Electrical machinery and equipment			0.3	19	206	225	1.31	60	15
Transport equipment			1	7	238	246	1.44	54	10
Computer, electronic, medical, precision			0.02	15	319	334	1.95	66	12
Chemicals			5	50	40	94	0.55	103	16
Pharmaceuticals			0.2	135	2334	2470	14.39	102	18
Other manufacturing				15	1	16	0.09	15	6
Services	9	2	26	921	4200	5158	30.05	1030	23
Construction and engineering services	1	0.002	10	45	48	105	0.61	51	10
Trading	1	0.04	6	15	3	25	0.15	53	10
Advertising and market research				0.2	15	16	0.09	20	4
Consultancy and business advisory service		0.01	0.4	5	45	51	0.30	54	6
Event management					1	1	0.00	3	3

Film, entertainment and broadcasting				473	251	724	4.22	35	7
Hospitality and tourism		0.03	3	25	37	66	0.38	46	11
Hospital and health services					177	177	1.03	28	5
Financial and insurance Services		0.001	0.1	15	999	1014	5.91	67	10
Telecommunication services				129	45	174	1.01	15	4
Transportation services			1	12	114	127	0.74	32	9
Software development, packages and ITES			5	199	2309	2513	14.64	692	21
Other services	7	2	0.4	1	156	166	0.97	22	11
Others			0.1	25	19	44	0.26	36	8
Total	10	3	36	1460	15652	17162	100.00	1866	30

Note & Source: Same as Table-1.

An analysis of the structure of Indian investment in services sector shows that about half of such investment is concentrated in software and IT sector. A total of 962 Indian software parent companies have invested US $2.5 billion across 11 developed countries. US alone attracted more than 54 per cent of Indian software investment, followed by Canada with 16 per cent, UK with 13 per cent and the Netherlands with 9 per cent. Financial and insurance service with US $1014 million is the second important sector for service sector Indian investment in developed region after software services. The Netherlands is the major destination for Indian firms operating in financial services with 68 per cent of Indian financial service investment. USA with 15 per cent and Belgium & Luxembourg with 8 per cent shares are other important recipients of Indian FDI in financial services. Film, entertainment and broadcasting is the third important segment of service sector to host Indian investment. A total of 35 Indian parent companies have invested a sum of US $724 million in 7 developed countries.

Within manufacturing sector, pharmaceutical is the top industry to attract Indian investments. About 102 Indian pharmaceutical companies had invested US $2.5 billion accounting for half of the Indian investment in developed region's manufacturing sector. Cyprus, Netherlands, USA and UK are four main recipients of Indian pharmaceutical investment. Food & beverages, metal products and computer & electronics respectively accounting for 9 per cent, 8.6 per cent and 7 per cent of Indian investment in manufacturing sector are other attractive host industries.

2.3 Ownership Choice

Indian greenfield FDI flows into developed countries are characterized by a distinct ownership preference since its beginning in 1960s. The major form of ownership participation in Indian FDI projects are mainly wholly-owned subsidiaries. The share of wholly-owned subsidiaries in the total number of OFDI approvals was 83 per cent in 1960s and consistently remained higher than the share of joint ventures throughout 1970s–1990s (Table-4). In 2000–2007, WOS's share was 81 per cent and for overall period 1961–2007, it accounted for 78 per cent of total Indian FDI approvals. This trend is quite contrasting to Indian FDI in developing region where joint venture accounted for larger share than WOS.

One possible cause for Indian firms' preference for full ownership in their OFDI projects in developed region is the nature of their overseas operation. Predominantly Indian FDI projects in developed region during pre-1990s period are into providing services in trading, consultancy, hotel, software and financial services, etc. Majority of these service activities require relatively less resources (relatively low capital-intensive) unlike manufacturing operation and Indian parent companies are capable of undertaking the financial commitment of their OFDI projects on their own. Most importantly, services like software and financial services involve close relationships with clients, personalized services and confidentiality of information. Given these nature of services, WOS provide firms relatively less risky mode of overseas expansion than joint venture with local firms.

Table-4 Ownership Choice of Indian Firms Investing in Developed Region, 1961–2007

Ownership Mode	Number of OFDI Approvals					
	European Union	**Other developed Europe**	**North America**	**Other developed countries**	**Total Developed Region**	
					Number	Percentage share to total
1961–69						
JV	1				1	16.7
WOS	2	3			5	83.3
Total	3	3			6	100
1970–79						
JV	4		1		5	45.5
WOS	5		1		6	54.5
Total	9		2		11	100
1980–89						
JV	17	1	7		25	48.1
WOS	11	1	15		27	51.9
Total	28	2	22		52	100
1990–99						
JV	158	8	122	21	309	32.7
WOS	283	10	327	15	635	67.3
Total	441	18	449	36	944	100
2000–07						
JV	247	13	390	34	684	18.8
WOS	1099	49	1689	117	2954	81.2
Total	1346	62	2079	151	3638	100
All Years						
JV	427	22	520	55	1024	22.0
WOS	1400	63	2032	132	3627	78.0
Total	1827	85	2552	187	4651	100
Percentage share of WOS	76.6	74.1	79.6	70.6	78.0	

Note & Source: Same as Table-1; WOS-wholly-owned subsidiary; JV-joint venture.

2.4. Main Indian Investors

Table-5 summarizes OFDI activities of 10 leading Indian multinationals operating in developed region over different periods. In identifying these leading investors, an OFDI index was constructed by giving equal weight to the amount of aggregate greenfield investments made and the number of host developed countries in which a company is operating. The Index is obtained as summation of these two series that are made scale-free by dividing respective average values (i.e., simple arithmetic mean).

The leading Indian multinationals of 1960s were mostly owned by large Indian business houses and their outward investment went into just two European countries, namely Switzerland and Germany. These early Indian multinationals undertook small-sized FDI projects related to service activities covering trading, consultancy and engineering services. These industrial houses have already established themselves in the domestic market with high market shares and further domestic expansion was costly and restricted in view of unfavourable policy regulations. Developed countries like Germany and Switzerland were attractive to as they gave them access to new markets. Trade supporting type of OFDI projects in this context would help these parent companies in exporting their products from India and importing foreign products. In the case of consultancy services, investing Indian company appears to be motivated to take benefit of the availability of cheap manpower in the home country.

In 1970s–80s the basic profile of leading Indian multinationals underwent little change. The list of leading investing Indian companies continued to be dominated by large Indian business houses and in overwhelming cases their OFDI operation was limited to two developed countries, namely UK and USA. The Tata group has been the most active leading player with Tata Sons, Tata Steel, Indian Hotels and Tata Tea leading the internationalization of the group through outward FDI in developed region. Sectorally, leading Indian multinationals in this period undertook outward investment projects related to trading and marketing of manufacturing products in textiles, tea, food, pumps, machineries and services projects in hotels, construction, insurance and consultancy. The 1980s is a crucial period that witnessed a government owned company like Gujarat Narmada Valley Fertilizers to be the largest investors in developed region and rise of Indian software companies like HCL Technologies into OFDI scenario.

The composition of the 10 largest Indian multinationals operating in developed region changed significantly in 1990s. The old Indian business groups, which hitherto dominated the top 10 list were replaced by new emerging business groups like Zee, Ranbaxy, Sun Pharmaceutical, Wockhardt, Ramco and Jindal groups. These emerging groups represented increasing diversification of Indian outward FDI to include new sectors like entertainment, telecommunication services and pharmaceuticals. With three Indian software companies claiming 4th, 8th and 9th positions among leading Indian investors, Indian software sector emerged as the leading Indian service sector resorting to outward FDI in developed region. Indian pharmaceutical companies numbering three ranked 5th, 6th and 7th are aggressive OFDI players from manufacturing sector. In addition to traditional host destinations like USA, UK, Germany, and Switzerland, the geography of Indian leading players expanded in 1990s with new host developed countries like Netherlands, Canada, Ireland and Japan.

Table-5 Period-wise Top 10 Greenfield Outward Investing Indian Firms in Developed Region, 1960s–2000s

Company Name	Business House	OFDI (US $ million)	Name of Host Countries	OFDI Index	Rank	Areas of Operation
1960s						
Tata Sons Ltd.	Tata	7.4	Switzerland	5.4	1	Trading and acting as agents of parent company
Dodsal (P) Ltd.	Dosal Group	1.4	Germany	1.8	2	Undertaking welding contracts, Construction and engineering services
Shanudeep Ltd.	Stanrose Mafatlal Group	0.6	Switzerland	1.4	3	Trading
Kirloskar Oil Engines Ltd.	Kirloskar Group	0.6	Germany	1.4	4	Machinery and equipment
MN Dastur & Company (P) Ltd.		0.1	Germany	1.0	5	Consultancy in engineering services
Raymond Ltd.	JK Singhania	0.02	Switzerland	1.0	6	Textiles and wearing apparel
1970s						
Tata Sons Ltd.	Tata	1.8	USA	5.7	1	Trading and acting as agents of parent company
Mafatlal Industries Ltd.	Arvind Mafatlal	0.8	UK	3.0	2	Trading in textiles and wearing apparel
E I D-Parry (India) Ltd.	Murugappa Chettiar	0.5	UK	2.3	3	Trading and consultancy in food & beverages
Ghai Lamba Catering Consultants Pvt. Ltd.		0.02	UK, USA	1.8	4	Restaurants and consultancy services
Tata Steel Ltd.	Tata	0.1	USA	1.3	5	Trading and acting as agents of parent company
Shaw Wallace & Co. Ltd.	Jumbo*	0.04	UK	1.0	6	Trading and investment activities
Karana Hotels Pvt. Ltd.		0.02	UK	1.0	7	Restaurant
Ramji Dayawala & Co. Ltd.		0.002	UK	0.9	8	Construction and engineering services
JB Boda & Co Pvt. Ltd.	JB Boda	0.001	UK	0.9	9	Insurance services
1980s						
Gujarat Narmada Valley Fertilsers Co. Ltd.	Govt. owned	9.3	UK	14.6	1	Phosphoric acid project
Reliance Industries Ltd.	Reliance Group [Mukesh Ambani]	5.2	UK	8.6	2	Trading activities
HCL Technologies Ltd.	HCL Group	4.7	USA	7.8	3	Computer software
Novo Resins Ltd.		3.9	USA	6.6	4	Particle board manufacturing
Indian Hotels Co. Ltd.	Tata	2.9	USA	5.2	5	Hotels
Tata Tea Ltd.	Tata	2.4	USA	4.4	6	Trading and marketing of tea

Tata Sons Ltd.	Tata	0.5	Switzerland, UK, USA	3.3	7	Trading
Mafatlal Industries Ltd.	Arvind Mafatlal	0.2	UK, Italy, Switzerland	2.9	8	Textiles and wearing apparel
Kirloskar Brothers Ltd.	Kirloskar Group	0.4	UK, USA	2.3	9	Marketing of pumps
CIMMCO Birla Ltd.	S.K. Birla	0.1	UK, USA	1.9	10	Trading in machinery and equipment
1990s						
Zee Telefilms Ltd.	Zee	471	UK	218.4	1	Broadcasting & telecasting
Videsh Sanchar Nigam Ltd.	Govt. owned**	79	Netherlands, UK	38.4	2	Telecommunication services
Iridium India Telecom Pvt.Ltd.		50	USA	24.0	3	Telecommunication Services
Silverline Industries Ltd.		48	USA	23.2	4	Software services
Ranbaxy Laboratories Ltd.	Ranbaxy	41	Canada, Netherlands	20.9	5	Drugs & pharmaceuticals
Sun Pharmaceutical Industries Ltd.	Sun Pharmaceutical Group	32	Switzerland, UK, USA	17.7	6	Drugs & pharmaceuticals
Wockhardt Ltd.	Wockhardt Group	31	Ireland	15.2	7	Drugs & pharmaceuticals
Ramco Industries Ltd.	Ramco	24	USA, Germany, Switzerland	13.7	8	Computer software services
NIIT Ltd.	HCL Group	19	Japan, Netherlands, UK, USA	12.5	9	Computer software services
Jindal Saw Ltd.	Om Prakash Jindal Group	25	USA	12.4	10	Metallurgical products
2000s						
Dr. Reddy's Laboratories Ltd.	Dr. Reddy's	987	Cyprus, Spain, USA	100.4	1	Drugs & pharmaceuticals
Suzlon Energy Ltd.	Suzlon	656	Australia, Denmark, Germany, Netherlands, USA	69.2	2	Generators, turbines and other electrical machineries
Ranbaxy Laboratories Ltd.	Ranbaxy	504	France, Netherlands	51.7	3	Drugs & pharmaceuticals
Hindalco Industries Ltd.	Aditya Birla	402	Australia, Canada	41.5	4	Non-ferrous metals, investment services
TransWorks Information Services Pvt. Ltd.	Aditya Birla	400	Canada, USA	41.3	5	Software development services
Tata Consultancy Services Ltd.	Tata	294	Australia, Belgium & Luxembourg, France, Germany, Netherlands, Sweden, UK, USA	35.8	6	Software development services
Tata Tea Ltd.	Tata	280	UK, USA	29.4	7	Tea processing and blending
Videocon Industries Ltd.	Videocon	235	Italy, Japan, UK	25.8	8	Electronics equipments
ONGC Videsh Ltd.	Govt. owned	234	Australia, Cyprus	24.8	9	Oil exploration
Mphasis BFL Ltd.	MphasiS	206	Australia, Germany, Ireland, UK, USA	24.6	10	Software development services

Note: Cairn India Ltd. has not been considered in preparing the list. *- Acquired by UB group in 2005; **-Acquired by Tata group in 2002.
Source: Same as Table-1.

The group and sectoral diversification of leading Indian multinationals operating in developed region continued in 2000s. Dr. Reddy's, Suzlon, Videocon and MphasiS are new entrants to the list of top Indian investing firms. New destinations for leading Indian firms include Cyprus, Spain, Australia, Denmark, France, Belgium & Luxemburg, Sweden and Italy. Hindalco Industries investment in overseas mining activities and ONGC's investment in overseas oilfields represented natural resource seeking activities of India's leading multinationals. Suzlon Energy's overseas expansion signifies Indian firms' entry into global wind power sector.

Therefore, the rise of leading Indian firms investing in developed region since 1960s showed remarkable trends of geographical spread of their foreign operations. The number of host countries, which was just 5 until 1980s has increased to a total of 16 host countries during 1990s–2000s. Emerging Indian business groups and government owned enterprises led to sectoral diversification with spread to new areas like software, pharmaceuticals, mining, wind energy and oil & gas.

3. Size and Trends of Brownfield Investment

The sharp rise in Indian FDI flows into developed region as reflected in the case of greenfield investments by Indian companies to set up new overseas affiliates can only be termed as moderate when compared to FDI flows generated by their overseas acquisition activities. Since 2000s an increasing number of Indian companies are aggressively following the businesses strategy of overseas acquisition for a number of firm-specific objectives like market entry, geographical diversification, access to strategic assets and natural resources. During the period from 2000 to March 2008, the Indian FDI flows into developed region on account of acquisition stand at US $47.4 billion as compared to Indian greenfield investment stock of US $17.2 billion as on end March 2007. Clearly, brownfield form of Indian FDI has surpassed its greenfield form in 2000s. Regionally, Indian brownfield investments in overwhelming cases are directed at developed countries that account for 79 per cent of the total overseas acquisitions made by Indian companies (Table-5). There are a total of 306 Indian firms engaged in acquisitions covering 28 developed countries. Strong sales growth, increased corporate profits and capability to raise international resources for M&As all have contributed to the rising phenomena of overseas acquisitions by Indian firms.

Similar to greenfield investments, overseas acquisitions of Indian firms have been more concentrated in European region with 50 per cent share in the total value of developed region acquisitions. It is followed by Noth America with 43 per cent share. UK in European Union with 37 per cent share and USA in North America with 39 per cent share are by far the two largest destinations for Indian brownfield investment in developed region—they together claimed 76 per cent share. These two economies are among the largest economies in the world and also leaders in producing innovative and competitive assets. For both the objectives of accessing large market and firm-specific intangible assets like technologies, skills, brands and management practices, USA and UK are thus natural destinations for acquiring Indian companies.

Table-5 Developed Region Acquisitions by Indian Firms, 2000–2008

Year	Developed Region Acquisition		In Number		
	Value (US $ Million)	As a Per cent of Total Indian Acquisition	Acquisition Deals	Acquiring Indian Firms	Host Developed Countries
2000	887	97.7	35	27	6
2001	172	88.6	20	19	5
2002	118	4.6	19	14	5
2003	594	96.6	34	31	8
2004	785	26.1	42	38	10
2005	2518	61.8	108	85	18
2006	5976	77.6	151	114	23
2007	33739	91.2	144	118	21
2008	2614	71.9	43	42	12
All Years	47402	79.3	596	306	28

Source: Based on dataset constructed from different reports from newspapers, magazines and financial consulting firms like Hindu Business Line, Economic Times, Financial Express, Business World, Grant Thornton India, etc.

As for sector, manufacturing has a relatively high proportion of acquisitions, which mainly reflected large-sized acquisitions done by Indian companies from steel industry and related to relatively small value acquisitions by firms from other industries such as food processing, electrical machinery, chemicals, pharmaceuticals and non-electrical machinery. The prominence of high technology Indian firms in manufacturing acquisitions suggests that brownfield Indian FDI is associated with strong firm-specific objective of accessing strategic foreign assets. Service sector accounted for 15 per cent of the value of Indian acquisitions in developed region. Software and IT service segment has been the top attractive segment within service sector brownfield investment. About 6 per cent of Indian brownfield investment is accounted for by primary sector mainly led by oil and natural gas segment. Table-7 presents top 15 acquisition deals done by Indian firms in developed region during 2000 to March 2008.

Table-6 Regional and Sectoral Distribution of Overseas Acquisitions of Indian Firms, 2000–2008

					Acquisition Value (US $ Million)
Host Region/country	Value	As a Per cent of Total	Sector	Value	As a Per cent of Total
Developed Region	47414	100	**All Sectors**	**47414**	100
European Union	23536	49.6	**Primary**	**2732**	5.8
Austria	133	0.3	Mining	454	1.0
Belgium	910	1.9	Oil & natural gas	2278	4.8
Czech Republic	43	0.1	**Manufacturing**	37568	79.2
Denmark	16	0.0	Food & beverages	2857	6.0
Finland	101	0.2	Textiles & apparels	410	0.9
France	316	0.7	Plastic & products	173	0.4
Germany	3115	6.6	Metal and fabricated metal products	22318	47.1
Greece	16	0.0	Electrical machinery and equipment	2742	5.8
Hungary	44	0.1	Non-electrical machinery &	2081	4.4

			equipment		
Ireland	169	0.4	Telecommunication equipment	339	0.7
Italy	363	0.8	Transport equipment	1356	2.9
Netherlands	486	1.0	Chemicals	2756	5.8
Poland	8	0.0	Pharmaceuticals	2374	5.0
Portugal	69	0.1	Biotechnology	36	0.1
Slovenia		0.0	Gems & jewellery	127	0.3
Spain	173	0.4	**Services**	7054	14.9
Sweden	87	0.2	Banking & financial services	4	0.0
UK	17488	36.9	Business advisory	12	0.0
Other developed Europe	1829	3.9	Hospitality and tourism	526	1.1
Monaco	25	0.1	Telecommunication services	913	1.9
Norway	1646	3.5	Media & entertainment	111	0.2
Switzerland	158	0.3	IT & ITES	5487	11.6
North America	20388	43.0	**Others**	61	0.1
Canada	1955	4.1			
USA	18433	38.9			
Other developed countries	1662	3.5			
Australia	563	1.2			
Bermuda	592	1.2			
Israel	489	1.0			
Japan	5	0.0			
New Zealand	13	0.0			

Source: Same as Table-5.

Table-7 Top 15 Developed Region Acquisitions Done by Indian Firms

Indian Company	**Target**	**Sector**	**Host Country**	**Acquisition in US $ Million**	**Year**
Tata Steel Ltd.	Corus	Metal	UK	13650	2007
Hindalco Industries Ltd.	Novelis	Metal	USA	6000	2007
Suzlon Energy Ltd.	75% stake in Repower	Electrical machinery and equipment	Germany	1816	2007
Essar Steel Ltd.	Algoma Steel Inc	Metal	Canada	1630	2007
Volvo Construction Equipment	Ingersoll Rand's road development division	Non-electrical machinery & equipment	USA	1300	2007
United Spirits Ltd.	100% stake in Whyte & Mackay	Food & Beverages	UK	1178	2007
Tata Chemicals Ltd.	100% stake in General Chemical Industrial Products Inc	Chemicals	USA	1005	2008
J S W Steel Ltd.	Jindal United Steel Corporation, Saw Pipes, and Jindal Enterprises LLC.	Metal	USA	900	2007
Aban Lloyd Chiles Offshore Ltd.	Sinvest ASA	Oil & Natural Gas	Norway	800	2007

Tata Tea Ltd.	30% stake in Energy Brands Inc.	Food & Beverages	USA	677	2006
Wipro Technologies	Infocrossing Inc	IT & ITES	USA	600	2007
Dr. Reddy'S Laboratories Ltd.	Betapharm Arzneimittel GmbH	Pharmaceuticals	Germany	597	2006
Rain Commodities Ltd.	CII Carbon	Chemicals	USA	595	2007
Suzlon Energy Ltd.	Hansen Transmissions International NV	Non-electrical machinery & equipment	Belgium	558	2006
D S Constructions Ltd.	100% stake in Globeleq America's power assets	Electrical machinery and equipment	Bermuda	542	2007

Source: Same as Table-5.

4. Drivers

The growth and expansion of Indian multinationals into developed region have taken place in different phases with changing set of casual factors. The drivers that contributed to the investment activities of early Indian multinationals in 1960s–80s appear to differ from new class of Indian multinationals that emerged since 1990s.

4.1 Drivers of Early Growth

The entry of early Indian firms into developed region through OFDI was contributed by a number of factors. The role of industrial and technological policies followed by the home country was critical for explaining the first phase of Indian firms' international expansion. With the pursuance of planned industrial strategy with emphasis on technological self-reliance throughout 1950s–80s, Indian firms prominently led by public sector companies actively undertook in-house R&D activities for adopting and upgrading of imported foreign technologies. In capital goods sector, domestic production started substituting imports of heavy machinery, electrical equipments and machine tools. The domestic growth of Indian owned firms was critically supported by strategic public sector investment that created a number of higher, technical and research institutions. The adoption of Indian Patent Act 1970 permitted Indian companies to reverse engineer foreign technologies and to come up with new processes.

These led to the emergence of a number of Indian firms with indigenous capabilities to locally produce a number of industrial products. However, these firm-specific advantages based on reverse engineering and incremental innovation could not provide Indian firms much scope for exploitation through direct investment in developed region. The existence of strong patent laws in developed region was obviously a barrier, but also early transnationalizing Indian firms hesitated in entering such fiercely competitive markets for higher risks, costs and scale. Moreover, modified foreign technologies possessed by Indian companies suited the Indian factor and demand conditions, which were clearly not available in developed region. Given this backdrop, the choice for Indian firms to enter into developed region was through trading of different products in textile, food, chemicals and target services segment like consultancy, restaurants and construction activities. Due to availability of trained and cheap manpower, Indian firms had competitive advantages in diversifying into these service activities.

In pre-1990s period, there are mainly two push factors that led to Indian firms' entry into foreign markets. They are stagnant domestic market and policy restrictions on large firms' growth. Large private owned Indian firms that were desperate to grow found themselves in disadvantageous situation created by Indian policy regime like Monopolies and Restrictive Trade Practices (MRTP) Act, Foreign Exchange Regulation Act (FERA), licensing regulation and reservation policies for public-owned and small scale sector. Slow growing domestic market further added to the drive of these Indian firms to seek new markets in developing and developed countries. While Indian firms preferred to enter into developing region through manufacturing FDI projects, they had gone for trading FDI projects and services projects in developed countries. The propensity as well as the size of OFDI undertaken by Indian firms in developed region continued to be smaller than those related to developing region.

4.2. Drivers of Recent Growth

Since 1990s, Indian firms began a new wave of OFDI expansion into developed region. The economic liberalization process, which occurred since early 1990s provided strong impetus for Indian firms' increasing move towards developed countries. Historically, large chunk of Indian companies had been operating only in domestic markets protected from global competitive pressure by strong trade and investment barriers. With the dismantling of tariff and non-tariff barriers to imports and provision of easier entry norms for foreign firms into Indian markets in 1990s, all have contributed to intense competition in domestic markets. This factor has driven Indian firms to seek new markets and developed region with large markets are natural choice for them.

The rising firm-specific advantages of Indian firms in a number of industrial and service sectors like pharmaceuticals, chemicals, auto components, software, consultancy, etc., have permitted Indian companies to go for large-scale OFDI operations in developed region. For Indian firms that want to further enhance their technological assets, overseas acquisitions feature more strongly as a technology acquisition strategy. Developed region attracted most of these brownfield investments as global innovative assets are geographically concentrated there. The emergence of regional trading blocks in developed as well as developing region further required Indian firms to adopt OFDI to gain insider status. The role of OFDI policy in dramatic growth of Indian FDI has been critical in recent years. Lifting of ceiling on permissible quantum of OFDI projects, removal on restriction on ownership choice, relaxation in accessing international finance through ADR/GDR route, etc., created conducive atmosphere for Indian OFDI.

5. Implications for Host Developed Countries

The rise of Indian firms can have a number of developmental implications for host developed countries. The fact that Indian multinational firms are still small when compared to developed country local firms in terms of scale of operation, financial strength and extent of intangible asset bundle, the scope of Indian greenfield FDI leading to crowding out of domestic investment appears to be limited. While not denying the traditional drawbacks of brownfield investments by Indian firms to acquire knowledge assets in developed region, in general Indian FDI can contribute considerably to development process of host developed countries.

The capacity of Indian companies to offer cheap and quality products and services tends to promote consumer welfare in developed countries. It increases availability of product and service substitutes allowing greater consumer choice and putting downward pressure on prices. For example, consider the case of Indian pharmaceutical FDI. The entry of Indian generic players into developed region is resulting in lower cost of life-saving medicines and improving accessibility to health services. Local producers in developed countries are now required to meet competitive challenges of outward investing Indian firms, which impart strength to enterprise level productivity growth and technological activities. Apart from directly augmenting capital formation in developed countries, greenfield Indian FDI projects involve transfer of unique Indian technologies and skills diversifying the knowledge base of host developed countries.

A major development impact of Indian service sector FDI can be seen in the tremendous cost-saving achieved by host developed country manufacturing and non-manufacturing companies. The emergence of Indian software and information technology companies enable developed country firms to achieve significant cost reduction, productivity growth and increased flexibility to remain competitive in global markets and to save existing jobs. The outsourcing of work facilitated by Indian FDI in service sector definitely results in greater job loss in the short term. However, host developed countries resorting to re-training for skill improvements are likely to witness a positive outcome in the long term. Indian FDI is also likely to introduce structural change in the local labour market by forcing more workers into specialized and skilled functions.

The impact of acquisitions by Indian companies on local economy can be predicted to be negative in the short term. As Indian companies, which are smaller in size than their acquired entities in a large number, are spending huge resources in the acquisition it is unlikely that they will be able to allocate more resources for local R&D. In the short term, the R&D activities of acquired developed country firms are likely to witness a declining trend. However, in the long term Indian parent companies are likely to get positively influenced by the advance research infrastructure in host developed countries and may step up affiliates' R&D activities. In the case where acquisition is motivated purely to access customer base and marketing network of the target developed country entities, Indian brownfield investment can involve increase in exports from India with a negative impact on local firms. It may also be possible that Indian parent company may go for restructuring of business after acquisition effecting reduction in the size of workforce in developed countries.

6. Conclusions

The magnitude of developed region bound Indian FDI has been growing over years with the emergence of developed countries as largest host to Indian investment in 2000–07. This rising importance of developed region is actually a reflection of the growing confidence, maturity and capability of Indian firms to emerge as global players by undertaking large-scale foreign production activities.

The dramatic growth of Indian FDI in developed region has been accompanied by a number of changes in the nature of such FDI. In terms of scale, the number of Indian parent firms and the amount of their investment represent a distinct break from the past. A total of 1866 Indian companies are operating in 30 developed countries with greenfield investment stock of US $17 billion at end March 2007. Although, initially Indian parent companies from services led FDI into developed region, manufacturing firms overtook them in early 2000s. Within service and manufacturing sectors, the range of economic activities covered by Indian investing firms significantly expanded over time.

European Union continues to be the largest host sub-region within developed region but the attractiveness of North America has been growing for Indian FDI. UK followed by USA are the two major hosts for Indian FDI destined to developed region. Since the beginning, Indian investing firms operating in developed region are observed to exert full control over their overseas subsidiaries. The changing profile of leading Indian players in developed region suggests that new business groups are joining Indian FDI in current period with interest in diverse economic sectors.

In addition to greenfield investment, Indian FDI into developed region is increasingly assuming the form of acquisition in recent period. A total of 306 Indian firms undertook 596 acquisition deals amounting to US $47 billion targeted at 28 developed countries. The Indian acquisition in developed region is concentrated in two developed countries, namely UK and USA and mostly related to manufacturing activities followed by service sector.

Indian FDI projects are likely to affect host developed economies in a number of ways. The greenfield projects are inferred to infuse new competitive pressures into developed country markets with benefits of higher productivity, lower cost and increase in consumer welfare. They are likely to have negligible negative impact in the form of crowding out of domestic investment. However, Indian FDI in acquisition forms are predicted to have a negative effect on local R&D activities in short run and may lead to increasing imports with possible unfavourable influence on local producers and employment.