



Munich Personal RePEc Archive

## **Emerging Multinationals from India and China: Origin, Impetus and Growth**

Pradhan, Jaya Prakash

Sardar Patel Institute of Economic & Social Research

23. October 2009

Online at <http://mpa.ub.uni-muenchen.de/18210/>  
MPRA Paper No. 18210, posted 28. October 2009 / 11:45

[Paper prepared for Hosei University International Workshop on *International competitiveness, globalization and multinationalization of firms: a comparison of China and India*, November 14, 2009, ICES, Hosei University, Tokyo.]

## **Emerging Multinationals from India and China: Origin, Impetus and Growth**

**Jaya Prakash Pradhan**

Version 1.0, 23<sup>rd</sup> October, 2009

**Sardar Patel Institute of Economic & Social Research,**  
Thaltej Road, Near Doordarshan Towers,  
Ahmedabad, 380 054, Gujarat, India.  
Email: [pradhanjayaprakash@gmail.com](mailto:pradhanjayaprakash@gmail.com)

**Acknowledgement:** The author wishes to thank Prof. Hideki Esho for the invitation to the ICES conference. He has benefited from a number of useful discussions with Prof. Keshab Das and interactions with Dr. Ling Liu on the topic. Finally, he also appreciates the cooperation received from Sradhalaxmi Sahoo and Gargi Pradhan while conducting this research.

## Contents

<i>Abstract</i>	1
1. Introduction	1
2. Early OFDI by EIMs and ECMs	2
3. Developments in OFDI by EIMs and ECMs since 1980s	4
3.1. Characteristics of FDI outflows in 1980s	4
3.2. Changes in FDI outflows in 1990s	7
3.3 Changes in FDI outflows in 2000s	12
3.4. Global economic crisis and OFDI by EIMs and ECMs	15
4. Comparing the characteristics of leading EIMs and ECMs	16
4.1. Differences in global assets and sales	16
4.2. Differences in size and degree of foreign operation	16
4.3. Who owns leading EIMs and ECMs?	19
4.4. Sectoral Profile of EIMs and ECMs	19
4.5. Motivations of EIMs and ECMs	20
5. Locational Determinants of Indian and Chinese OFDI	21
5.1 Analytical Framework	21
5.2. Data Sources	22
5.3 Estimation Method and Results	23
6. Conclusion	26

### *List of Tables & Figures*

Table-1	OFDI flows from emerging economies, 1991–2007	1
Table-2	Indian OFDI flows, 1961–79	2
Table-3	Sectoral profile of Indian OFDI flows, 1961–79	4
Table-4	Evolution of Chinese and Indian OFDI, 1980–2007	5
Table-5	Sectoral composition of Chinese and Indian OFDI in 1980s	7
Table-6	List of top 10 destinations for Indian and Chinese OFDI in 1990s	11
Table-7	Regional distribution of OFDI flows from China and India, 2000–2009	13
Table-8	List of top 10 destinations for Indian and Chinese OFDI in 1990s	14
Table-9	Global size of ECMs and EIMs, \$ billion and thousand of employees, 2006	17
Table-10	Size of foreign business of ECMs and EIMs, \$ million and number of employees, 2006	18
Table-11	Locational determinants of OFDI by ECMs and EIMs	24
Table-A1	Strategic Motives of Selected EIMs	31
Figure-1	Approved Chinese and Indian OFDI performance in 1980s	6
Figure-2	Chinese and Indian OFDI in 1980s, by sector	6
Figure-3	Approved Chinese and Indian OFDI performance in 1990s	8
Figure-4	Sectoral composition of Indian and Chinese OFDI in 1990s	9
Figure-5	Regional distribution of Indian and Chinese OFDI in 1990s (%)	10
Figure-6	Percentage share of JV and WOS in total number of overseas affiliates, 1990s	11
Figure-7	Indian and Chinese OFDI flows in 2000s	12
Figure-8	Regional distribution of OFDI flows from China and India, 2000–2009	13
Figure-9	Sectoral composition of Indian and Chinese OFDI flows in 2000s	14
Figure-10	Sectoral breakdown of foreign assets of leading 18 ECMs and EIMs, 2006	20

## **Emerging multinationals from India and China: Origin, Impetus and Growth**

*Abstract:* This study deals with the outward FDI (OFDI) behaviours of the emerging multinationals from India and China. In the backdrop of changing public policies and economic performance of the home country, it traces the evolution of OFDI by these emerging multinationals over a long period, from early 1950s to the present decade. Indian and Chinese multinationals, in addition to their similarity of achieving high growth rates of OFDI with long term sectoral and geographical diversification, are observed to have a number of important differences in terms of characteristics of outward investing firms and their locational motivations.

### **Introduction**

For a long time, outward FDI (OFDI) from emerging economies<sup>1</sup> has remained a peripheral issue in the literature of international production. Over the decades since the earliest studies of Lecraw (1977) and Wells (1977), the emerging country multinationals has come to be an issue for a few academics or developing country policy makers interested in ‘south-south’ cooperation. By the early half of the current decade, however, emerging multinationals started attracting global imagination due to continuing high growth of their OFDI and their rising profile in global markets through low cost innovation and international acquisitions (Economist, 2007, 2009). Between 1991–99 and 2000–07, the growth of developed country OFDI decelerated from 60 per cent to 22 per cent while emerging country OFDI has been growing at a faster rate of above 47 per cent in these periods (Table-1). While the M&A investment has fallen in absolute sense for developed country firms in 2000–06, emerging firms continued with a whopping 62.8 per cent growth rate.

It needs to be noted, though, not all emerging countries are witnessing strong OFDI growth in recent years. Some countries are clearly emerging as OFDI outperformers whereas others are lagging behind. India and China are such two emerging economies that are witnessing rapid growth of their OFDI flows. Chinese and Indian enterprises appear to have entered into a new stage of their internationalization process recently with foreign production increasingly becoming a new basis for firm growth. In both these countries, national firms predominantly kept focus on domestic markets during 1970s–80s while their international operation mostly consisted of export activities and modest OFDI operation in a few developing countries. The international strategies of these firms become broad based since late 1990s with the growing corporate pursuance of greenfield OFDI as well as acquisitions abroad for a variety of firms specific objectives like access to new markets, new technologies, skills, natural resources, etc. Clearly, emerging multinationals from China and India are coming into being as new global players in a number of world industries as suppliers of goods and services.

In the above backdrop, it is important to extend the ongoing debate on India and China to include analysis of emerging multinationals from both these countries. Much has already been written about the difference between these two emerging Asian countries in terms of their economic growth, social and infrastructural development, public policies and political

---

<sup>1</sup> These economies are defined to include both developing countries and transition economies as classified by the UNCTAD in the World Investment Report 2008.

systems but there is little research on their differences in terms of OFDI activities. How do emerging Indian multinationals (EIMs) differ from emerging Chinese multinationals (ECMs) in terms of trends and patterns of their outward investment? How did EIMs and ECMs evolve over time? Which are the sectors of their global presence and where do they invest? Who are these leading multinationals and what are their motivations of investing abroad?

In this paper, an exploratory attempt has been made to presents a comparative picture of outward investments undertaken by EIMs and ECMs and looks at factors behind their recent growth. In particular we study the evolution of OFDI by these emerging multinationals in the background of changing development parameters of home country, the role of government policies and examine the trends, industrial composition and geographical profiles of such investments, major players and motivations underlying them. Additionally, we analyze the locational factors underlying distribution of Indian and Chinese overseas investments characteristics across host countries.

This study has the following structure: Section 2 describes the early OFDI activities of EIMs and ECMs. Section 3 reviews the growth of these emerging multinationals since early 1980s as reflected in the comparative analysis of Indian and Chinese OFD flows over different periods. Here, the focus is on sectoral and regional distribution of such investments, ownership choice, government policy, etc. Section 4 provides comparative picture of top EIMs and ECMs in terms of scale of their outward investment, degree of internationalization, sectoral profiles and main motivations. Section 5 examines EIMs and ECMs in terms of their locational behaviors of choosing to invest in some countries and not in others.

**Table-1 OFDI flows from emerging economies, 1991–2007**

Region/Country	OFDI Flows				M&A Purchase			
	Annual Average (\$ billion)		Annual Compound Growth Rate (%)		Annual Average (\$ billion)		Annual Compound Growth Rate (%)	
	1991–99	2000–07	1991–99	2000–07	1991–99	2000–06	1991–99	2000–06
World	438.6	1025.5	59.1	25.2	265.1	626.0	98.7	-3.1
Developed economies	388.9	883.0	60.2	22.0	247.5	568.4	100.0	-7.2
Emerging economies	49.7	142.5	49.4	47.4	17.5	56.4	79.3	62.8
Developing economies	48.4	126.9	49.0	41.6	17.3	53.1	79.0	59.9
Economies in transition	1.5	15.6	37.6	153.3	0.2	3.3	95.0	207.0
Brazil	1.0	6.3	66.3	106.9	1.1	5.9	247.0	221.3
China	2.5	9.3	1.5	149.9	0.5	3.6	96.5	253.5
India	0.1	4.6	158.0	168.1	0.2	1.9	195.6	70.5
Russian Federation	1.4	14.3	35.9	153.4	0.1	3.0	49.9	223.2
South Africa	1.4	1.2	57.4	168.4	2.1	2.8	100.9	-26.0

*Note:* Compound growth is obtained by fitting semi-logarithmic regression function.

*Source:* Based on UNCTAD online FDI database.

## 2. Early OFDI by EIMs and ECMs

In the post-1949 period, the origin of outward FDI by ECMs and EIMs can be traced back to 1950s and 1960s respectively (Zhang, 2003; Pradhan, 2008a). The establishment of the state-owned China Resources Limited in 1950 and the Chinese-Polish shipping joint venture, CHIPOLBROK, in 1951 are known to have marked the emergence of international operations of Chinese firms. However, outward investment by ECMs in 1950s–1970s has

mostly been led by four Chinese conglomerates such as Bank of China (BOC Group), China Resources Company, China Merchants Company and China Travel Limited and largely been confined to Hong Kong (Sung, 1996). These limited numbers of ECMs were wholly or partly owned by different agencies of Chinese government and served to promote interest of Chinese banking, finance, shipping, travelling and trading in Hong Kong (Zhang, 2003). For an isolated China, Hong Kong served as the crucial location for accessing international markets for Chinese exports and Hong Kong bound Chinese OFD was to support such exports by the provision of trade-supporting services and facilitating remittances and tourism (Sung, 1996). Clearly, overseas commercial presence of ECMs in this early period was modest and not backed by any substantial overseas production activities.

Unlike state-owned enterprises that led the beginning of ECMs' outward investments, private sector firms were the initiator of OFDI from India. The establishment of a textile factory by the Birla group at Addis Ababa, Ethiopia, in 1960 and a wholly-owned subsidiary (WOS), namely Tata International AG by the Tata group at Zug, Switzerland in 1961 were EIMs' two earliest OFDI projects. The next overseas project of EIMs was the starting of an assembly plant for sewing machines by the Shriram group at Ratmalana, Sri Lanka, in 1962. The value of EIMs' OFDI in 1961–79 was quite modest at \$119 million and nearly 89 per cent of it went to developing region (Table-2). At the end of 1981 the OFDI stock of EIMs stood at \$80 million as per UNCTAD information, twice that of ECMs, indicating relative edge of Indian firms in OFDI activities.

**Table-2 Indian OFDI flows, 1961–79**

<b>Statistics</b>	<b>1961–69</b>	<b>1970–79</b>	<b>All Years</b>
<i>A. OFDI Value (US\$ Million)</i>			
Developing Region	22 (68.6)	84 (96.2)	106 (89.1)
Developed Region	10 (31.4)	3 (3.8)	13 (10.9)
Total	32 (100)	87 (100)	119 (100)
<i>B. No. of Outward Investing Indian Firms</i>			
Developing Region	6	52	54
Developed Region	6	9	14
Total	11	60	66
<i>C. No. of Host Countries</i>			
Developing Region	6	15	16
Developed Region	2	2	4
Total	8	17	20

*Note:* Percentage share in parenthesis; Developing region includes developing countries and transition economies of South-East Europe as classified 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.

Though the size of outward investments by both ECMs and EIMs were quite modest during their early phases and mostly went into developing region, there are a number of striking dissimilarities as well. OFDI by EIMs appears to be sectorally and geographically more broad based than outward investments of ECMs and is relatively led by more number of outward investing firms. There are a total of 66 EIMs investing in as many as 20 countries during this phase. It is also obvious that manufacturing has been the dominant areas of operation for EIMs accounting for as much as 82 per cent of total Indian investment in 1961–79 (Table-3), as contrasts to the service driven Chinese overseas investment. Perhaps it is also interesting to note that early OFDI projects of EIMs in developed region were

largely into service activities like trading, consultancy and construction and those in developing countries went mostly into manufacturing sector (Pradhan, 2008b; 2008c).

During this period the economic policies of both India and China were overtly inward looking with reluctant approach to international trade and inward foreign investment. Chinese policies, based on socialist thinking and plan distribution systems, were even worse than Indian system of mixed economy with strong private ownership rights. India enjoyed a higher real GDP per capita in 1960–77, nearly doubled that of China, but both exhibited slow GDP growth rates. The existing Indian government policies to check the growth of large privately-owned industrial houses as to avoid concentration of economic power in the economy and stagnant domestic demand were two important factors that motivated EIMs to use OFDI as a growth alternative.

**Table-3 Sectoral profile of Indian OFDI flows, 1961–79**

<b>Sector</b>	<b>OFDI (\$ million)</b>	<b>Per cent</b>
<b>Primary</b>	4.03	3.7
Ores & Minerals	3.8	3.4
Gas, Petroleum and related products	0.3	0.2
<b>Manufacturing</b>	90.45	82.4
Textiles and wearing apparel	3.2	2.9
Wood & wood products	25.1	22.9
Printing and Publication	31.7	28.9
Non-metallic mineral products	7.5	6.8
Basic metals and fabricated metal product	6.6	6.1
Machinery and equipment	2.4	2.2
Electrical Machinery and equipment	3.1	2.8
Transport equipment	4.7	4.3
Computer, electronic, medical, precision	0.3	0.2
Chemicals	2.4	2.2
Pharmaceuticals	0.3	0.3
Other manufacturing	3.2	2.9
<b>Services</b>	15.35	14.0
Construction and engineering services	4.2	3.9
Trading	0.7	0.6
Consultancy and business advisory service	0.1	0.1
Hospitality and Tourism	4.5	4.1
Financial and Insurance Services	5.9	5.3
Other services	9.2	8.3
<b>Total</b>	109.83	100

*Source:* Same as Table-2

### **3. Developments in OFDI by EIMs and ECMs since 1980s**

#### **3.1. Characteristics of FDI outflows in 1980s**

Since 1978 China made attempts to breakaway from restrictive economic policies of the past and implemented a set of reforms to improve its agriculture, promote inward FDI to access new technologies and encourage international trade. These reforms catapult China to a sustainable path of high growth and competitiveness since early 1980s. However, India continued to follow import-substitution development strategy with strong negative bias to exports until 1991. Indian firms were protected from imports and entry of foreign firms but

were not capable of growing larger as licensing and anti-monopolistic regimes were in place. The result is that India continued with slow growth and technological retrogression in manufacturing activities during 1980s. Needless to say, the change in development paradigm in these two countries was a key factor to influence OFDI behaviour of EIMs and ECMs since 1980.

Tables-4 summarizes the comparative OFDI performance of EIMs and ECMs over 1980–2007. It is clear that OFDI by ECMs has significantly surpassed that of EIMs in 1980s and the absolute gap between them only increased over time. The rapidly growing GDP and accelerated infusion of new technologies through increased inward FDI flows during the open door policy seem to have brought more OFDI opportunities for ECMs. As expanding exports started relaxing the constraint of limited foreign exchange reserve, China was in a position to formulate a transparent and less restrictive OFDI policy regime since mid-1980s (Tan, 1999; Wong and Chan, 2003; Buckley et. al. 2008). In addition to ECMs from public sector, the route of overseas investment was thrown open to private Chinese enterprises. Not just trading companies and those established as part of international economic and technological cooperation, any Chinese firm possessing required finance and technology can undertake outward investment. However, the policy emphasis was still on joint venture mode of overseas expansion for ECMs.

**Table-4 Evolution of Chinese and Indian OFDI, 1980–2007**

Period/ Year	OFDI (\$ billion)		As % of world OFDI flows		OFDI per capita (\$)		As % of gross fixed capital formation		As % of GDP	
	China	India	China	India	China	India	China	India	China	India
<i>Cumulative OFDI Flows</i>										
1980–89	3.63	0.04	0.43	0.01	0.42	0.01	0.433	0.008	0.126	0.002
1990–99	23.23	0.70	0.74	0.02	1.96	0.07	1.071	0.075	0.343	0.018
2000–07	74.56	37.11	0.84	0.39	7.22	4.06	0.929	1.678	0.405	0.544
Total	101.41	37.86	0.67	0.12	3.10	1.19	0.827	0.466	0.295	0.163
<i>OFDI Stock</i>										
1981	0.04	0.08	0.01	0.01	0.04	0.11	0.05	0.19	0.01	0.04
1991	5.37	0.11	0.27	0.01	4.70	0.13	4.71	0.16	1.27	0.04
2001	34.65	2.62	0.53	0.04	27.57	2.46	7.60	2.34	2.63	0.54
2007	95.80	29.41	0.61	0.19	73.37	25.16	6.41 <sup>#</sup>	5.96 <sup>#</sup>	2.91	2.59

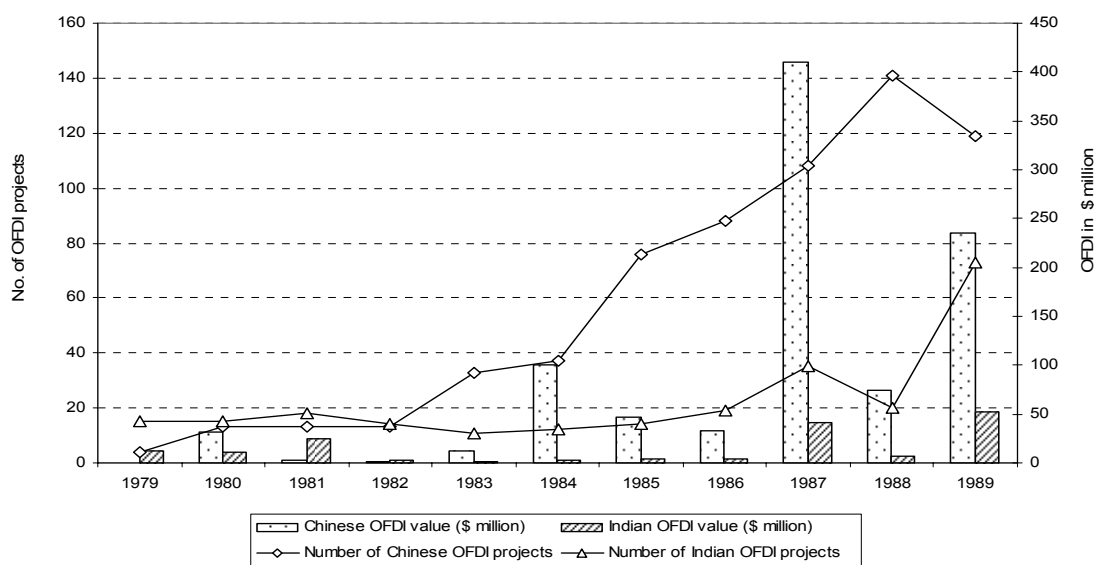
*Note:* Chinese OFDI flows data from UNCTAD is only available since 1982; #-data is for 2006.

*Source:* Calculation based on UNCTAD online data on FDI.

A total of 641 OFDI projects were approved for ECMs in 1980–89 as against just 231 OFDI projects of EIMs and the approved Chinese FDI outflows stood at \$950 million, over 6 times that of Indian OFDI flows (Figure-1). The average scale of approved OFDI project of ECMs turns out to be \$1.5 million as compared to \$0.7 million per OFDI project of EIMs during this period. An estimated 185 overseas affiliates (both joint venture and wholly-owned subsidiaries) were started by ECMs in 1979–85 and their number jumped to 616 in 1986–90 (Tan, 1999). These periods saw just 82 and 119 overseas affiliates being set up by EIMs correspondingly. The number of host countries to ECMs' investment rose from 23 in 1979–83 to 40 in 1979–83 and then to 120 in 1986–92 (Wu and Chen, 2001). During these periods, the overseas investment by EIMs was limited to a total of 12, 13 and 51 host countries respectively. Therefore, ECMs' OFDI surged ahead than that of EIMs in 1980s and is accompanied by relatively larger number of outward investing firms, higher scale of overseas investment and increased geographical spread.

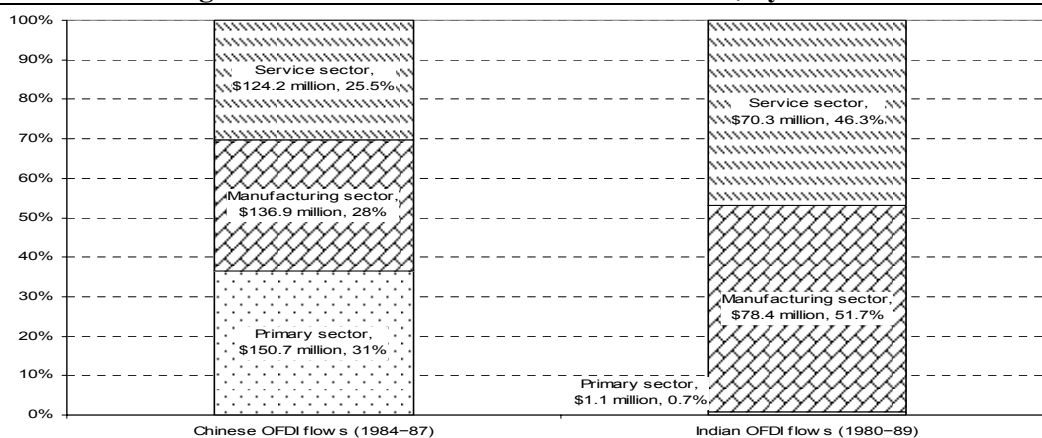


**Figure-1 Approved Chinese and Indian OFDI performance in 1980s**



Source: (i) Wu and Chen (2001) based on Almanac of China's Foreign Economic Relations and Trade, 1991-2000 (ii) The Indian OFDI is from the same source as Table-2.

**Figure-2 Chinese and Indian OFDI in 1980s, by sector**



Note: Chinese data was converted into \$ million using the official exchange rate.

Source: (i) Wu and Chen (2001) based on United Nations (1992) *World Investment Directory 1992*, Vol.1, Asia and the Pacific; (ii) The Indian OFDI is from the same source as Table-2.

The 1980s also reflected distinct shifts in sectoral profile of firms' overseas operation from India and China. The rise of natural resource-seeking investment by ECMs was apparent with 31 per cent of Chinese OFDI flows being directed at agricultural and mining sectors of foreign countries in 1984-87 (Figure-2, Table-5). This period also witnessed remarkable rise of manufacturing ECMs overtaking service ECMs in making investments abroad. The Chinese policy of encouraging joint venture form of inward foreign investment with strong emphasis on export promotion and technology transfer appear to have been successful in enabling national firms from manufacturing sector to upgrade their technical, managerial and organizational knowledge to be capable of undertaking large overseas investments. Chinese manufacturing firms from metal, textile, leather, and electrical machinery, thus, emerges as new OFDI players from China.

The sectoral shift of OFDI by EIMs was from manufacturing activities in 1960s–1970s towards service activities in 1980s. As it is well known that Indian manufacturing sector become inefficient with negative productivity growth in this period (Rao, 1996), mostly due to indiscriminate protection from international competitive pressures, it is natural that to found considerable slowdown in Indian manufacturing OFDI activities. The fast growing service sector in the national economy, on the other hand, was boosting the service share in Indian OFDI flows in this period. There was little investment from EIMs in the primary sector. The share of manufacturing and services in the total outward investments of EIMs was respectively 52 per cent and 43 per cent in 1980s as compared to 28 per cent and 25.5 per cent in OFDI flows from ECMs (Table-5). As noted earlier the share of primary sector in Chinese OFDI was above 30 per cent in this period. This shows that natural resources become central to OFDI activities of ECMs since 1980s while more pronounced was the rise of service EIMs in Indian OFDI.

**Table-5 Sectoral composition of Chinese and Indian OFDI in 1980s**

Sector	OFDI flows (\$ million)			
	Chinese OFDI flows (1984–87)		Indian OFDI flows (1980–89)	
	Value	Per cent	Value	Per cent
<b>Primary</b>	150.7	31.0	1.1	0.7
Agriculture	80.9	16.6	0.6	0.4
Mining and quarrying	68.5	14.1		0.0
Coal and petroleum products	0.8	0.2	0.5	0.4
<b>Manufacturing</b>	136.9	28.1	78.4	51.7
Food, beverages and tobacco	6.1	1.2		0.0
Textiles, clothing and leather	24.6	5.0	7.0	4.6
Paper	3.9	0.8		0.0
Chemicals and chemical products	6.5	1.3	56.0	36.9
Rubber and plastic products	9.6	2.0	0.2	0.1
Non-metallic mineral products	2.0	0.4		0.0
Metal and metal products	53.5	11.0	4.9	3.2
Mechanical equipment	1.0	0.2	2.7	1.8
Electrical equipment	22.6	4.6	1.5	1.0
Transport equipment	4.2	0.9	1.0	0.6
Other manufacturing	8.7	1.8	5.1	3.4
<b>Services</b>	124.2	25.5	70.3	46.3
Construction	13.1	2.7	10.7	7.0
Distributive trade	23.2	4.8	13.1	8.6
Transport and storage	8.5	1.8	2.6	1.7
Finance and insurance	5.8	1.2	26.1	17.2
Other services	39.5	8.1	17.8	11.8
<b>Total</b>	486.8	100	151.7	100

Source: Same as Figure-2.

### 3.2. Changes in FDI outflows in 1990s

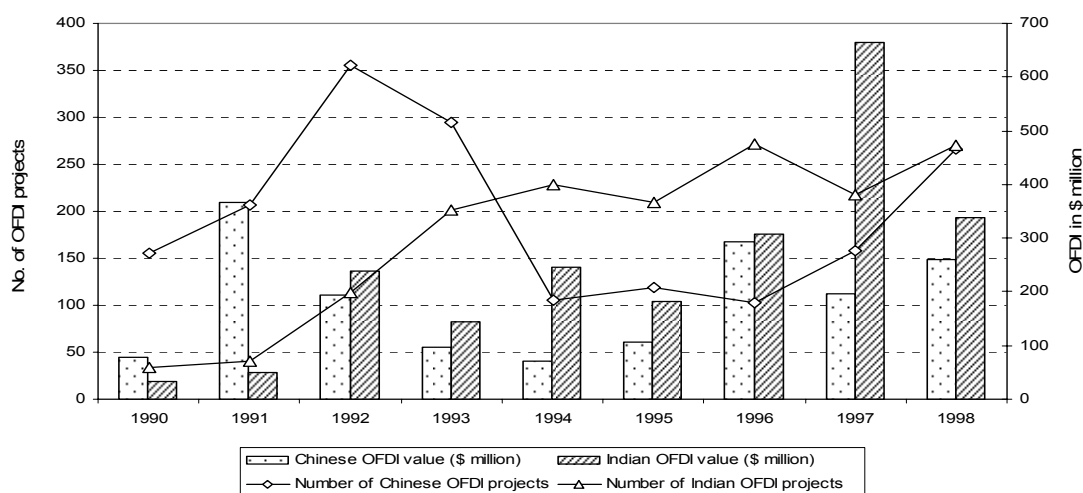
The comparative picture of OFDI undertaken by ECMs and EIMs underwent for major changes since 1990s. India reconsidered her economic policies in 1991 and adopted radical reforms programmes to improve domestic industrial productivity, technologies, inward FDI and steadily integrate Indian economy with the dynamics and networks of global market. Measures of industrial reforms like dismantling of industrial licensing policy, deregulation,

privatization and disinvestments; of trade reforms like reforms in exchange rate regime, reduction in import tariffs, removal of quantitative restrictions on imports, full convertibility of the rupee on current account on balance of payment, etc.; of FDI policy like national treatments to foreign firms, opening up of many sectors hitherto closed to FDI, instituting automatic approval route and other measures have together changed the business environment of the domestic markets. Along with this internal and external liberalization measures pertaining to the economy, there has been rapid globalization of the world economy led by WTO regime, technological changes, changing consumer preferences, liberalization of FDI regime at global level etc. All these changes have led to increasing competition in the domestic market, which in turn started forcing Indian firms to diversify into the global market.

The liberalization of Indian OFDI policy regime in terms of putting in place an automatic approval route for OFDI projects, successive enhancement of permissible overseas investment ceiling from \$2 million in 1992 to \$15 million in 1995 and further to \$50 million in 2001 for a financial year, and allowing cash transfer for outward investment led to renewed cross-border production activities undertaken by EIMS in 1990s (Pradhan, 2008d). The Chinese OFDI policy, in contrast, become more cautious in 1992–98 following reports of heavy losses suffered by outward investing Chinese firms in their foreign operation (Wong and Chan, 2003). A rigid and rigorous screening and monitoring process system for approving OFDI was put in place to permit only viable and serious Chinese outward FDI projects.

This OFDI policy differential between India and China and the adoption of outward-looking economic policy by the former ensured rapid growth of OFDI by EIMs over that by ECMs in 1990s. Indian OFDI flows and cross-border M&A purchase respectively grew at 158 per cent and 196 per cent in 1991–99 as compared to 1.5 per cent and 96.5 per cent growth rate of Chinese FDI outflows and M&A purchase in the same period (Table-1). In fact, in terms of approved OFDI flows, EIMs appears to get more active than ECMs (Figure-3). However, as the MOFTEC (Ministry of Foreign Trade and Economic Cooperation of China) approved FDI data substantially understate OFDI by ECMs by excluding trading and financial projects, in actual outflows as reported by UNCTAD in Table-1, Chinese OFDI is still above Indian OFDI in 1990s.

**Figure-3 Approved Chinese and Indian OFDI performance in 1990s**

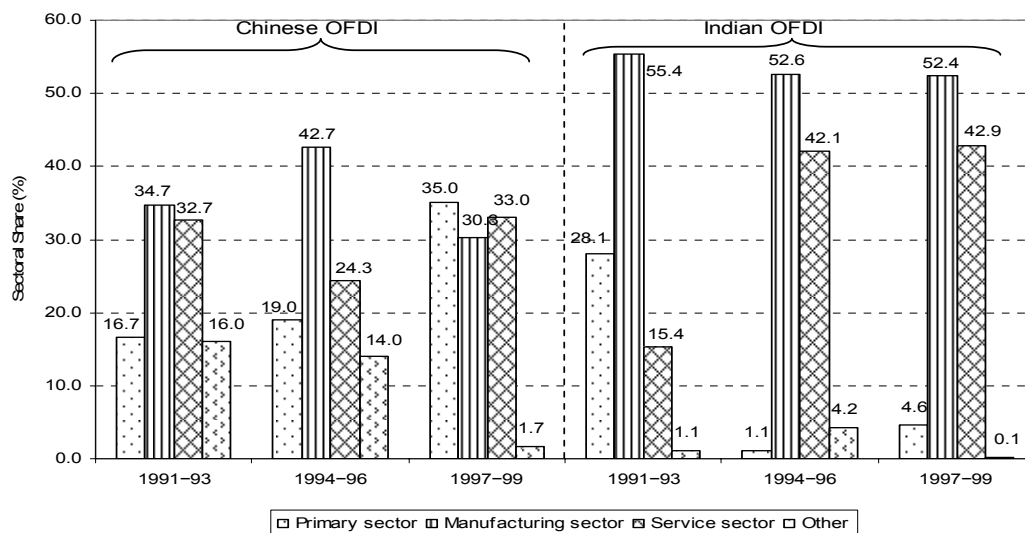


Source: Same as Figure-1.

The sectoral diversification of ECMs continues during 1990s, with increasing participation of manufacturing enterprises in Chinese overseas investments. With China witnessing greater strength in manufacturing sector caused by outward looking policies and strategic government supports in subsectors such as chemicals, pharmaceuticals, electronics, aerospace, automobiles, transport, machinery, etc. it is natural that manufacturing ECMs have assumed greater depth in outward investment, accounting for over 35 per cent of total Chinese OFDI in 1990s (Figure-4). The provision of autonomy to state-owned manufacturing enterprises, preference in state procurement, adequate state financial support, transferring state-run R&D centres to them and policies requiring foreign firms to establish joint ventures with domestic partners and requiring exporters to China to source Chinese components, all immensely benefited China to lay the industrial foundation (Nolan, 2001). In addition to manufacturing firms, ECMs from service and primary sector continued their OFDI activities to respectively seek markets and natural resources abroad. Obviously, the Chinese OFDI path got diversified from being dominantly service driven in 1960s–70s to be led by services and primary sector in 1980s and finally to be significantly contributed by all the three economic sectors (i.e. service, manufacturing and primary sector) in 1990s.

The sectoral diversification of EIMs’ OFDI, unlike the Chinese story, begin largely with manufacturing firms in 1960s–70s towards manufacturing and service activities in 1980s and then to become wide spread across all the three broad economic sectors in 1990s. India’s economic growth got accelerated in 1990s due to implementation of economic reforms measures. Increase in economies of scale and enterprise productivity due to a business friendly and liberalized policy regime, improved availability of investible resources from a booming capital and financial market, highly growing exports, increasing inflows of foreign capital, etc. all favourably contributed to higher economic growth in India. The service sector that emerged as largest contributing sector to the overall Indian economic growth during this period was also turn out to be an important source for OFDI from EIMs. An upward shift in demand for natural resources like oil, gas, and minerals due to domestic investment boom and limited domestic sources thereof called for outward investment by EIMs to secure such resources abroad.

**Figure-4 Sectoral composition of Indian and Chinese OFDI in 1990s**

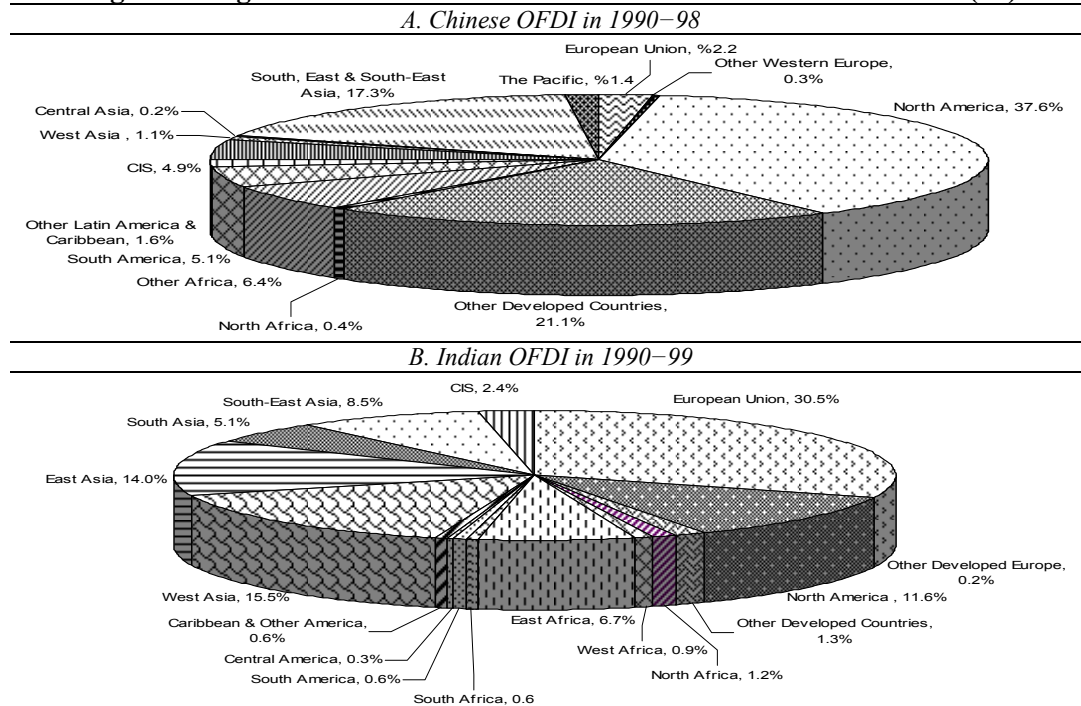


Source: (i) Buckley et. al. 2008 based on the State Administration of Foreign Exchange (SAFE) statistics on approved Chinese FDI projects; (ii) The Indian OFDI is from the same source as Table-2.

The 1990s wave of OFDI by ECMs and EIMs has been accompanied by an increasing locational preference for developed region. During this period, developed region accounted for three-fifths and two-fifths respectively of the total OFDI of ECMs and EIMs (Figure-5). This shows that both Chinese and Indian multinationals are turning to large markets of developed countries for objectives of new markets and accessing strategic assets. For Indian pharmaceutical, automotive and software firms, developed countries are offering great opportunity in terms of markets for generic drugs, automotive components and software services respectively. Unlike dominantly market- and natural resource-seeking type of OFDI from India, the motive of Chinese OFDI got diversified to include strategic asset acquisitions since mid-1990s (Icksoo, 2009). ECMs were interested in enhancing their technological and innovative capability beyond what inflows of FDI and technology licensing can offer and have used OFDI to acquire foreign strategic assets, encouraged by the ‘go global policy’ of the home country. However, it should be noted that most of the developed region bound Chinese OFDI was confined to North America (USA and Canada) followed by Australia whereas European Union was the dominant host to Indian OFDI directed at developed region followed by North America (Figure-5, Table-6).

As far as developing region is concerned, they attracted more than 56 per cent of OFDI by EIMs in 1990s as compared to just 39 per cent of OFDI from ECMs. Though the regional preference of Indian OFDI began to increase in favour of developed region in 1990s, developing region continues to be their primary destination. This is in contrast to ECMs that started stressing on developed region over developing region in 1990s, ostensibly for the acquiring new technologies and strengthening export supporting infrastructure abroad.

**Figure-5 Regional distribution of Indian and Chinese OFDI in 1990s (%)**



Source: (i) Buckley et. al. 2008 based on MOFCOM, Almanac of Foreign Relations and Trade 1991-2003 and China Commerce Yearbook 2004; (ii) The Indian OFDI is from the same source as Table-2.

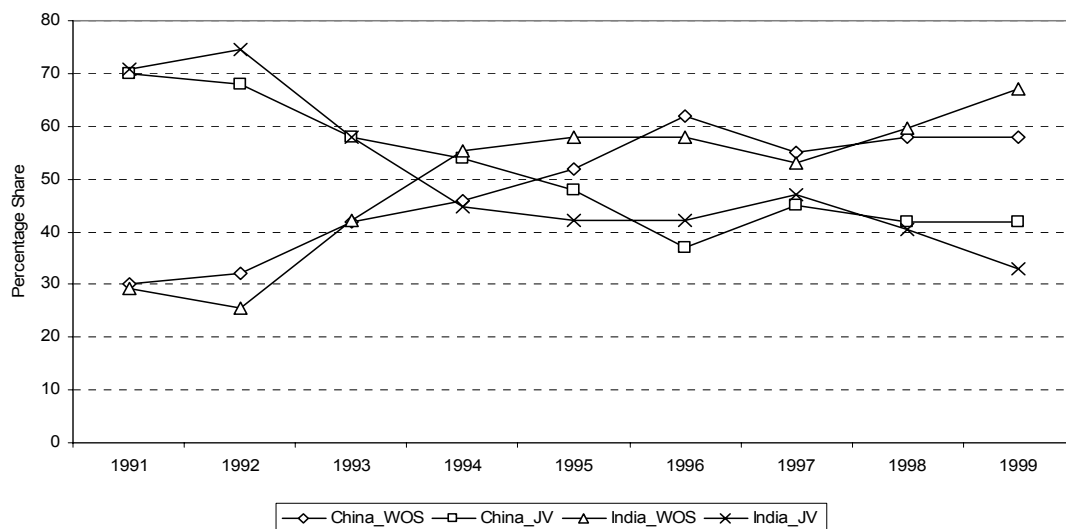
**Table-6 List of top 10 destinations for Indian and Chinese OFDI in 1990s**

<i>Chinese OFDI in 1990–98</i>		<i>Indian OFDI in 1990–99</i>	
<b>Host Country</b>	<b>Percentage share</b>	<b>Host Country</b>	<b>Percentage share</b>
USA	19.0	UK	23.8
Australia	18.6	Hong Kong	13.2
Canada	18.6	USA	11.4
Hong Kong	8.5	UAE	7.2
Russian Federation	4.6	Mauritius	6.0
Thailand	3.0	Singapore	4.7
New Zealand	1.8	Oman	4.2
Peru	1.8	Sri Lanka	2.7
Macao	1.4	Iran	1.8
Chile	1.3	Malaysia	1.8

Source: Same as Figure-5.

The nature of ownership participation in OFDI projects have changed significantly for both ECMs and EIMs. The number of wholly-owned subsidiaries established overseas in 1990s surged, increasing their share from 30 per cent in 1991 to 58 per cent in 1999 for ECMs. The same increase for EIMs was from 29 per cent to 67 per cent (Figure-6). These points to a growing preference of Chinese and Indian outward investing companies to have full ownership over their OFDI projects unlike the past where joint ventures were the traditional mode of overseas expansion. The rise of wholly-owned subsidiaries in OFDI projects reflect growing confidence of these emerging players to go alone in their overseas operation and to reap full benefits of it. This could also be contributed by the hesitation on the part of emerging multinationals to share their growing ownership advantages with joint venture partners in host countries and relaxation of home country policy insistence on joint venture form of ownership (e.g. in the case of India).

**Figure-6 Percentage share of JV and WOS in total number of overseas affiliates, 1990s**



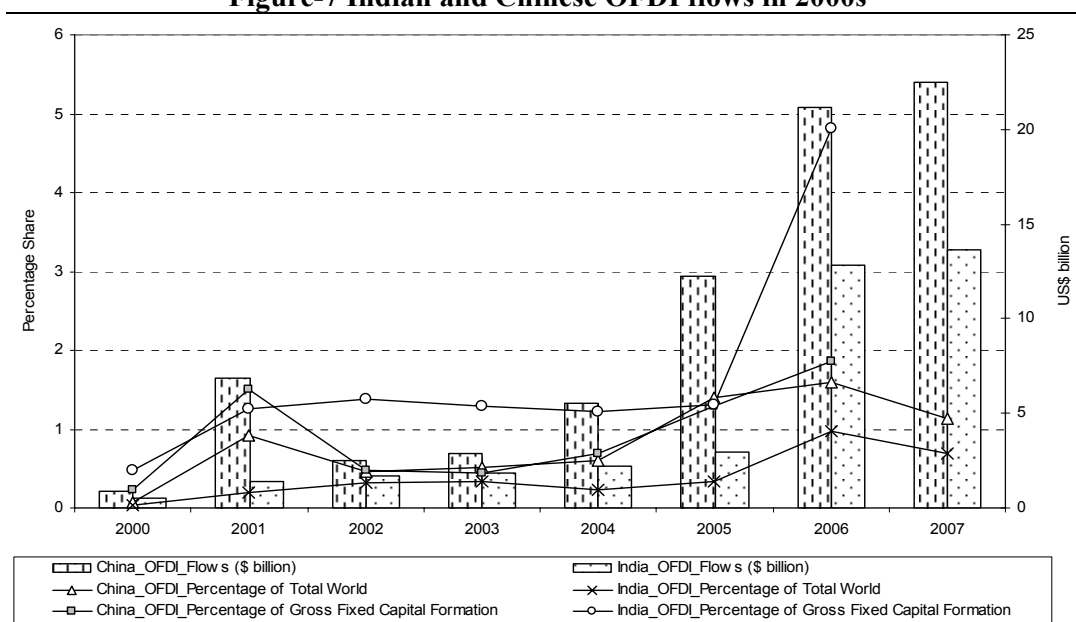
Source: Same as Figure-4.

### 3.3. Changes in FDI outflows in 2000s

The OFDI flows from ECMs and EIMs continue to grow at very high rates in 2000–2007. The WTO accession and adoption of ‘go global’ policy by China in 2001 led to significant growth revival for OFDI flows from ECMs in 2000–2007, which grew at a whopping rate of 150 per cent (Table-1). The value of Chinese OFDI flows went up from below \$1 billion in 2000 to \$22 billion in 2007. The growth of Chinese M&A purchase was even more spectacular at 253.5 per cent in this period. There are more than 5000 ECMs operating across 172 countries owning nearly 10000 overseas affiliates at the end of 2006 (OECD, 2008). Under the ‘go global’ policy simplified regulatory approval procedure and low-interest loans are provided to targeted state-owned enterprises for undertaking OFDI to secure natural resources (e.g. iron ore, coal, oil and natural gas), to acquire new technology, to expand trade-supporting infrastructure to help Chinese exports and to strengthen/gain more international influence in other countries (Whalley and Xin, 2007).

The OFDI flows from EIMs increased from \$0.5 billion in 2000 to \$13.6 billion in 2007 recording a compound growth rate of 168 per cent (Table-1). In terms of gross fixed capital formation (GFCF), EIMs’ OFDI flows have overtaken ECMs’ OFDI flows. The share of OFDI in GFCF increased from 0.5 per cent in 2000 to 4.8 per cent in 2006 for India while the share of China increased from 0.22 per cent to 1.9 per cent (Figure-7). At the end March 2007, the number of EIMs stood at 3149, operating across 122 countries (Pradhan, 2008b). The fact that India continued with a favorable OFDI policy like permission to use funds raised through ADRs/GDRs for investment abroad in 2001, removing restriction of horizontal expansion in 2003, automatic investment upto 100 per cent of firms’ net worth (without any monetary ceiling) in 2004 and increasing the same to 200 per cent in 2005, etc. and rapid domestic growth contributed to this significant expansion of Indian OFDI in this period (Pradhan, 2008d). EIMs started seriously adopting overseas M&As in 2000s—a favourite strategy of OFDI by Chinese firms since 1990s.

**Figure-7 Indian and Chinese OFDI flows in 2000s**



Source: Based on UNCTAD FDI database.

It is interesting to note that OFDI flows from ECMs have regressed back more into developing region in 2000s as compared to a consistent and aggressive shift in EIMs' OFDI flows towards developed region. Developing region claimed over 90 per cent of Chinese OFDI flows in 2003–2007 as compared to just 42 per cent of Indian OFDI flows in 2000–2009 (Table-7). Eastern Asia with 45 per cent share is the top destination for Chinese OFDI flows in this period, followed by Caribbean (34 per cent) and developed region (7 per cent). As contrast, Europe is the most attractive location for Indian OFDI flows with 41 per cent share, followed South-Eastern Asia (21 per cent) and North America (10 per cent).

**Table-7 Regional distribution of OFDI flows from China and India, 2000–2009**

Region	Chinese OFDI Flows (\$ million)			Indian OFDI Flows (\$ million)		
	2003–2007	Per cent	No. of host country	April, 2000–March, 2009	Per cent	No. of host country
Developing economies	58342	90.10	107	30934	42.48	81
Africa	2878	4.44	45	8976	12.33	31
Eastern Africa	411	0.63	14	6139	8.43	11
Middle Africa	272	0.42	8	68	0.09	3
Northern Africa	795	1.23	6	2159	2.97	6
Southern Africa	582	0.90	4	111	0.15	3
Western Africa	818	1.26	13	499	0.68	8
Latin America and Caribbean	22638	34.96	20	1912	2.63	16
Caribbean	22092	34.12	6	1165	1.60	7
Central America	58	0.09	3	143	0.20	4
South America	488	0.75	11	603	0.83	5
Asia	32543	50.26	36	20029	27.51	32
Eastern Asia	29225	45.13	6	1594	2.19	5
Southern Asia	1033	1.60	7	478	0.66	8
South-Eastern Asia	1777	2.74	11	15406	21.16	10
Western Asia	508	0.78	12	2552	3.51	9
Oceania	282	0.44	6	2	0.00	1
Economies in transition	1869	2.89	12	3408	4.68	9
Asia	615	0.95	7	186	0.26	6
Europe	1254	1.94	5	3222	4.42	3
Developed economies	4543	7.02	32	38470	52.83	35
America	1889	2.92	3	7392	10.15	3
Asia	128	0.20	2	31	0.04	2
Europe	1555	2.40	25	30075	41.31	28
Oceania	971	1.50	2	971	1.33	2
Grand Total	64754	100	151	72813	100	125

Source: (i) 2007 Statistical Bulletin of China's Outward Foreign Direct Investment, Ministry of Commerce, China; (ii) Online Statistics on Indian Joint Ventures and Wholly-owned Subsidiaries, 2009, Ministry of Finance, Government of India.

The developing region bias of ECMs' OFDI flows in 2000s appear to be a result of Chinese firms directing their large share of OFDI into offshore financial centers (OFCs). Among the top 10 countries that attracted Chinese OFDI flows, top three are OFCs such as Hong Kong, Cayman Islands and British Virgin Islands which together claimed nearly 77 per cent of total Chinese OFDI flows during 2003–2007 (Table-8). By locating overseas investment in OFCs and tax heavens, ECMs enjoys lower taxation of capital and income and even it make sense for them to plugging back a part of such OFDI into the home country. The story is largely same for EIMs' OFDI flows with four OFCs (Singapore, Mauritius, Channel Island and



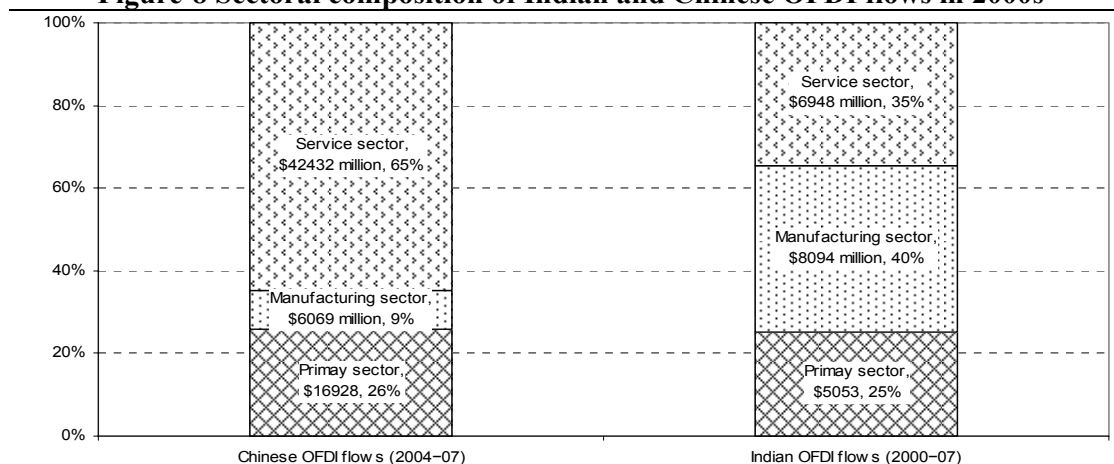
Cyprus) that appeared in the list of top 10 host locations claimed nearly 42 per cent of Indian OFDI flows in 2000s.

**Table-8 List of top 10 destinations for Indian and Chinese OFDI in 1990s**

Chinese OFDI Flows in 2003–2007			Indian OFDI Flows in April, 2000–March, 2009		
Host Country	OFDI flows (\$ million)	Percentage to Total Flows	Host Country	OFDI flows (\$ million)	Percentage to Total Flows
Hong Kong	27860	43.0	Singapore	14296	19.6
Cayman Islands	17690	27.3	Netherlands	10665	14.6
British Virgin Islands	4236	6.5	USA	6238	8.6
Russian Federation	1241	1.9	Mauritius	5944	8.2
Canada	1098	1.7	Channel Island	5435	7.5
Australia	968	1.5	UK	5354	7.4
South Korea	867	1.3	Cyprus	4677	6.4
Pakistan	864	1.3	Russian Federation	3102	4.3
USA	811	1.3	UAE	2145	2.9
UK	658	1.0	Sudan	1191	1.6
Sum of above hosts	56292	87	Sum of above hosts	59048	81

Source: Same as Table-7.

**Figure-8 Sectoral composition of Indian and Chinese OFDI flows in 2000s**



Note: Indian OFDI data for 2001 is only from January to March, 2002 is from October to December and 2007 data is from January to March; US\$ 4323 million OFDI undertaken by Cairn India Limited for oil exploration in Channel Island has not been included as this is a round-tripping investment made by UK-based parent company Cairn Energy Group through its Indian subsidiary.

Source: (i) 2007 Statistical Bulletin of China's Outward Foreign Direct Investment, Ministry of Commerce, China; (ii) The Indian OFDI is from the same source as Table-2.

In the current decade, ECMs are more and more aggressive from the service sector, accounting for more than 65 per cent of total Chinese OFDI flows in 2004–07 (Figure-8). Leasing & business service (24 per cent), trading (16.5 per cent), transport services (10.5 per cent) and finance (8 per cent) are sources of leading service ECMs undertaking OFDI in this period. This rise of service sector as largest contributing sector in Chinese outward investment tends to resemble the early picture of Chinese OFDI in 1960s–70s when service ECMs dominated the picture. Natural resource-based ECMs with 26 per cent share stood as

the next important source of Chinese OFDI flows and manufacturing ECMs with just 9 per cent share stood at distant last. For EIMs, the primary sector emerged as a critical area of their operation during this period. Nearly 25 per cent of Indian investment in 2000–07 has been claimed by the natural resource-seeking activities of EIMs (Figure-8). Manufacturing EIMs with 40 per cent share and service EIMs with 35 per cent share stood as the traditional players in OFDI from India. Overall, the role of all the three economic sectors appears to be more balanced in OFDI by EIMs than ECMs in 2000s.

### **3.4. Global economic crisis and OFDI by EIMs and ECMs**

Emerging multinationals from India and China were observed to behaved quite oppositely in 2008, the starting year of the global economic crisis. The bursting of the asset bubble in the United States, collapsing western financial institutions and rising insolvency of the global corporate giants, led to a sharp slowdown in growth of global GDP to just 1.7 per cent, down from 3.5 per cent in 2007 (WTO, 2009). The global FDI flows plummeted by 21 per cent as a result of declining growth in most countries, falling equity markets, general tightening of liquidity, falling corporate profits, collapsing metal and oil prices, etc. (UNCTAD, 2009).

The outward investments by EIMs followed the global pattern and fell by 6.3 per cent in 2008 to \$16.7 billion from a historic level of \$17.8 billion in 2007 (Pradhan, 2009). The contraction in Indian FDI continues in 2009, falling by 14 per cent to \$4.7 billion in the first quarter of the current year. The slow domestic economic growth, rapidly falling exports, financial uncertainty, rising cost of capital, falling profitability and dim prospects for world economy have made EIMs cautious in their overseas investment plans. Between 2007 and 2008, EIM's acquisition led FDI outflows in primary sector (9.5 per cent) and services (19 per cent) improved, while those in manufacturing sector (-78.9 per cent) declined. These figures suggest that Indian OFDI in primary and services sector has been more resilient during the crisis than the OFDI in manufacturing activities. The resilience of primary sector is mainly because of the state-owned Indian company, Oil and Natural Gas Corporation, continuing its acquisition of overseas oil resources (e.g. the acquisition of Imperial Energy Corporation for \$1.9 billion).

For ECMs, the current crisis period turn out to be a year of aggressive investment made abroad. Chinese OFDI flows of \$26.5 billion in 2007 nearly doubled to \$52.2 billion in 2008 (Davies, 2009). This behaviour of ECMs to rapidly increase their OFDI during the crisis year is quite contrary to the global trend of declining FDI outflows. This increase in Chinese OFDI flows took place in spite of slowing down of domestic economy, declining exports and other weak economic conditions.

The above differential OFDI performance between EIMs and ECMs in 2008 clearly shows that there are some basic differences that characterize OFDI flows from these two emerging economies. Unlike state-driven Chinese FDI outflows, Indian FDI has been primarily led by private enterprises except a few public sector firms operating in the energy sector. Despite several Chinese sovereign wealth funds losing billions of dollars in the US and Europe during the financial crisis in 2008, the Chinese 'go global' policy successfully pushed up its FDI outflows, backed by the world's largest foreign exchange reserves of \$1.95 trillion. With guidance and adequate financial support from the state, ECMs are capable of acquiring natural resources, technological assets and brands even in the crisis period. The cheap assets valuation that exists in the crisis period is providing ample incentives for China with a large foreign exchange reserves to promote her emerging multinationals. On the contrary, Indian

FDI flows, largely driven by market parameters and business opportunities, have been impacted adversely.

#### **4. Comparing the characteristics of leading EIMs and ECMs**

The above analysis of the nature and patterns of aggregate OFDI flows from India and China has by now indicated a number of distinctive features of emerging multinationals from both these countries. In this section, a comparative study of selected leading Indian and Chinese multinationals has been undertaken to further explore if there exists differences in the internationalization behaviours of ECMs and EIMs. Based on the information from two recent surveys conducted by the Vale Columbia Center on Sustainable International Investment (VCCI) in collaboration with Indian School of Business for India and with School of Management at Fudan University for China, this section highlights the differences that exists between Indian and Chinese multinationals in terms of their global size, degree of internationalization, ownership, sectoral specialization and motivations.

##### **4.1. Differences in global assets and sales**

Table-9 summarizes the global size of 18 leading emerging multinationals from China and India selected on the basis of foreign assets. It can be seen that the top 18 ECMs had an aggregate global assets of \$489 billion in 2006, enjoyed global sales of \$336 billion and employed about two million people globally. In contrast, the top 18 EIMs together possessed just about \$71 billion of global assets, \$64 billion of global sales and 370 thousands of global employment. In terms of global assets, the top 18 ECMs had a size of seven times the assets of the top 18 EIMs. Evidently the outward investing Chinese firms are much bigger than their counterparts from India. If one rank these top Chinese and Indian multinationals together on the basis of their global assets, just two Indian firms (Reliance and ONGC) could figure in top 15 multinationals based in China and India and all 13 bottom firms are from India. Clearly, majority of emerging multinationals from India quite smaller firms as compared to those from China and lagged behind considerably in terms of the size of business operation.

##### **4.2. Differences in size and degree of foreign operation**

Leading 18 EIMs are again way behind leading 18 ECMs in terms of the size of their foreign operation. There are just four EIMs, namely ONGC, Tata, Videocon and Ranbaxy Laboratories which had over \$1 billion of foreign assets as compared to a total of 13 ECMs (Table-10). The total foreign assets of leading 18 ECMs amounting to \$78.8 billion is over five times the foreign assets of leading 18 EIMs at \$14.5 billion.

However, in terms of degree of foreign operation—the ratio of foreign assets (sales) to firms' global assets (sales)—one can find that EIMs are comparable to ECMs. For example, nearly 20 per cent of EIMs' global assets are located outside the home country while the same ratio for ECMs is just 16 per cent. The number of emerging multinationals holding more than 50 per cent of their assets abroad is five for EIMs (Videocon, Ranbaxy, Dr. Reddy's, i-Gate Global, and Tata) and just four for ECMs (China Poly, Sinochem, Lenovo, and China Ocean Shipping). The transnationality index, which is the average of foreign share in assets, sales and employment, shows that there are 10 EIMs that have above 30 per cent index values while there is just six ECMs.

Overall this suggests that EIMs lag behind their Chinese counterparts only in terms of absolute size of foreign operation but supersede the latter while one choose to consider the degree of foreign operation.

**Table-9 Global size of ECMs and EIMs, \$ billion and thousand of employees, 2006**

Chinese Multinationals				Indian Multinationals			
Company name	Global assets	Global sales	Global employment	Company name	Global assets	Global sales	Global employment
CITIC Group	117.4	10.1	107	Oil and Natural Gas Corpo.	21.0	17.1	35
China Ocean Shipping (Group) Co.	18.7	15.7	70	Tata Group	8.2	9.8	118
China State Construction Engineering Corp.	15.6	18.1	119	Videocon Indus.	2.3	1.6	10
China National Petroleum Corp.	178.8	114.4	1167	Ranbaxy Lab.	1.6	0.9	11
Sinochem Corp.	8.9	23.6	21	Dr. Reddy's Lab.	1.4	0.5	8
China Poly Group Corp.	7.9	7.4		HCL Tech.	0.9	1.0	33
China National Offshore Oil Corp.	19.4	8.5	3	Hindalco Indus.	4.3	2.6	20
Shougang Group	10.0	8.8		Sun Pharmaceuticals Indus.	0.8	0.4	5
China Shipping (Group) Co.	9.6	9.2	43	Reliance Indus.	21.9	20.6	13
TCL Corp.	8.5	6.5	56	Suzlon Energy	0.9	0.9	5
Lenovo Group	5.5	14.6	21	Larsen & Toubro	3.7	3.8	22
China Minmetals Corp.	6.8	17.3	33	Wipro Tech.	1.5	2.4	55
China Communication Construction Co.	16.3	14.7	78	Bharat Forge Ltd.	0.6	0.7	6
Shum Yip Holdings Co. Ltd.	2.3	0.3	13	Patni Computer Systems Ltd.	0.6	0.6	13
Baosteel Group Corp.	29.5	24.0	90	Hexaware Tech.	0.1	0.2	6
Shanghai Automotive Industry Corp. (Group)	17.3	17.9	70	Biocon Ltd.	0.3	0.2	3
China Metallurgical Group Corp.	10.4	11.3	136	i-Gate Global Solutions Ltd.	0.1	0.1	5
Haier Group	6.0	13.4	52	Max India Ltd.	0.5	0.3	4
<b>Top 18</b>	<b>488.8</b>	<b>335.8</b>	<b>2079</b>	<b>Top 18</b>	<b>70.7</b>	<b>63.7</b>	<b>370</b>

Source: (i) ISB and VCC (2009); (ii) FUDAN and VCC (2008).

**Table-10 Size of foreign business of ECMs and EIMs, \$ million and number of employees, 2006**

Chinese Multinationals						Indian Multinationals					
Company name	Foreign assets	Foreign sales	Foreign employment	TNI (%)	No. of foreign affiliates	Company name	Foreign assets	Foreign sales	Foreign employment	TNI (%)	No. of foreign affiliates
CITIC Group	17623 (15)	2482 (25)	18305 (17)	19	12	Oil and Natural Gas Corp.	4724 (22)	1645 (10)		11	4
China Ocean Shipping (Group) Co.	10397 (56)	8777 (56)	4432 (6)	39	245	Tata Group	4169 (51)	3576 (37)	24682 (21)	36	157
China State Construction Engineering Corp.	6831 (44)	4376 (24)	5820 (5)	24	40	Videocon Indus.	1626 (71)	966 (59)		43	16
China National Petroleum Corp.	6374 (4)	3036 (3)	22000 (2)	3	5	Ranbaxy Lab.	1077 (69)	859 (94)		54	47
Sinochem Corp.	5326 (60)	19374 (82)	220 (1)	48	31	Dr. Reddy's Lab.	869 (63)	362 (66)	2000 (27)	52	27
China Poly Group Corp.	5113 (65)	1750 (24)		44		HCL Tech.	111 (12)	780 (75)	4032 (12)	33	31
China National Offshore Oil Corp.	4984 (26)	3719 (44)	984 (34)	34		Hindalco Indus.	581 (14)	147 (6)		6	5
Shougang Group	4875 (49)	2250 (26)		37		Sun Pharma.	281 (34)	157 (40)	1100 (22)	32	11
China Shipping (Group) Co.	4600 (48)	4324 (47)	2433 (6)	34	81	Reliance Indus.	250 (1)	414 (2)	22 (0)	1	3
TCL Corp.	3875 (46)	3366 (52)	32078 (58)	52	28	Suzlon Energy	135 (15)	70 (8)	227 (4)	9	14
Lenovo Group	3147 (57)	9002 (62)	6200 (30)	50	18	Larsen & Toubro	130 (3)	143 (4)		2	17
China Minmetals Corp.	1266 (19)	2527 (15)	630 (2)	12	14	Wipro Tech.	128 (9)	1906 (79)	10005 (18)	35	14
China Communication Construction Co.	1162 (7)	2855 (19)	1078 (1)	9		Bharat Forge Ltd.	106 (19)	473 (69)	1650 (29)	39	10
Shum Yip Holdings Co. Ltd.	972 (43)	123 (43)	28 (0)	29		Patni Computer Systems Ltd.	81 (13)	587 (99)	2795 (22)	45	5
Baosteel Group Corp.	968 (3)	4231 (18)	170 (0)	7	13	Hexaware Tech.	69 (48)	184 (96)	1056 (18)	54	10
Shanghai Automotive Industry Corp. (Group)	442 (3)	4133 (23)	7175 (10)	12	1	Biocon Ltd.	50 (17)	23 (13)	2 (0)	10	1
China Metallurgical Group Corp.	439 (4)	314 (3)	745 (1)	3	14	i-Gate Global Solutions Ltd.	49 (54)	12 (8)	837 (16)	26	7
Haier Group	394 (7)	1870 (14)	6800 (13)	11	22	Max India Ltd.	37 (8)	7 (2)	27 (1)	3	5
<b>Top 18</b>	<b>78788 (16)</b>	<b>78509 (23)</b>	<b>109098 (5)</b>	<b>15</b>	<b>524</b>	<b>Top 18</b>	<b>14,473 (20)</b>	<b>12311 (19)</b>	<b>48435 (13)</b>	<b>18</b>	<b>384</b>

Note: Percentage share to a company's global assets/sales/employment is in parenthesis.

Source: Same as Table-9.

### **4.3. Who owns leading EIMs and ECMs?**

Of the leading 18 EIMs as shown in Table-10, 17 are privately-owned firms and one (ONGC) is a public sector company. All these Indian multinationals are publicly listed companies at Indian stock markets, therefore, have private investors as shareholders. This corroborates the fact that Indian OFDI is largely led by private sector companies. Among the leading 18 ECMs, just three are privately-owned (Lenovo, TCL, and Haier) and rest 15 are majority or wholly-owned by the state. Clearly, Chinese OFDI is predominantly led by companies that are directly promoted by national and provincial governments. These leading ECMs, similarly to their Indian counterparts, are all listed companies in China or Hong Kong providing opportunities to private investors.

Since state is the owner of majority of dominant outward investing firms from China, Chinese OFDI is not just a function of general market conditions. It is widely believed that the regional and sectoral distribution of Chinese OFDI to a significant extent is determined by state considerations to enhance Chinese defence, political and economic influence globally.

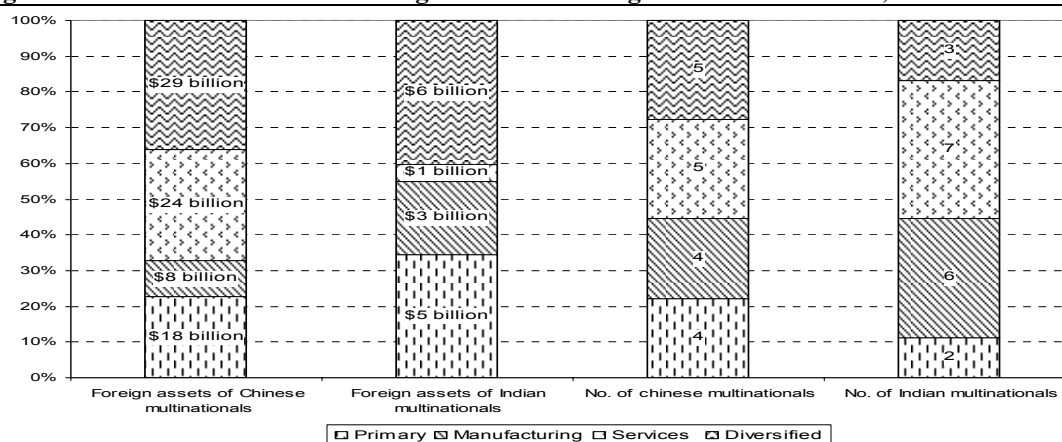
The extraordinarily rapid growth of Chinese OFDI during the period of global crisis is otherwise not explainable by the usual economic forces ascribed by theories of foreign investment. The trend of Indian OFDI on the other hand can be explained to a greater part by the primary forces of economic growth, corporate strategies, and home country government policies.

### **4.4. Sectoral Profile of EIMs and ECMs**

Sectorally, leading EIMs and ECMs represent all the three broad spectrum of economic activities, namely primary, secondary and service sectors. However, diversified groups that have business interests across different sectors appear to have been the dominant contributors to the outstanding foreign assets of both EIMs and ECMs. The conglomerates accounted for nearly 36 per cent of total foreign assets owned by leading 18 ECMs and about 40 per cent in the case of leading 18 EIMs (Figure-9).

The next major area for leading ECMs has been the service sector with 31 per cent share in total foreign assets, followed by primary sector with 23 per cent share. The activities of leading ECMs in the service sector covers construction, real estate, transport and storage and that in manufacturing concerns with automotives, computers, and electronics. The primary sector mainly consisting of oil & gas has been the second important industrial areas for EIMs with 34 per cent share of total foreign assets of leading 18 Indian multinationals. Manufacturing sector comprising activities like pharmaceuticals, steel, automotive and textiles comes as third important sector for EIMs with 20.5 per cent share of foreign assets while services, mainly information technologies, turns out to be a distant third with just 5 per cent share.

**Figure-9 Sectoral breakdown of foreign assets of leading 18 ECMs and EIMs, 2006**



Source: Same as Table-9.

#### 4.5. Motivations of EIMs and ECMs

The main motivation of both EIMs and ECMs from service and manufacturing sectors seems to be gaining access to overseas markets. Most of the leading outward investing firms from these two home countries are relatively large sized firms with substantial ownership advantages in national markets and hitherto they were exploiting such advantages via exports. However, these firms are now seeking to use OFDI as another medium to serve global markets through overseas production and even using the same to strengthen trade-supporting infrastructure abroad to promote more exports from home. In addition, a number of these firms are using acquisition as a strategy to further improve firm-specific advantages and gain easier entry into new markets.

In the case of software EIMs, direct onshore presence is critical for successful service delivery from offshore centre in India and to attract more customers in foreign countries. Much of the outward greenfield investment from Indian software industry is motivated to achieve these two objectives. Similarly, greenfield projects by Indian pharmaceutical firms are for building trade supporting infrastructure abroad and enhancing their global market presence. EIMs from energy sector are obviously motivated to secure access to natural resources like oil and gas reserves. Acquisitions across different EIMs seem to be motivated by composite firm-specific objectives of accessing new markets, new products, technologies, skills, and benefiting from operational synergies (Appendix Table-A1).

Similar to their Indian counterparts, ECMs are motivated by a variety of objectives. The OFDI and overseas acquisitions by state-owned natural resource players like China National Petroleum Corp. (CNPC), China Petrochemical Corp. (SinoPec), China National Offshore Oil Corp. (CNOOC), CITIC Resources and Chinaloco are motivated to acquire natural oil, gas and minerals. The main motivation of Chinese firms like China Shipping Container Lines, Dalian Machine Tool Group and Air China are to secure access to local networks and trading infrastructure so as to improve market position in host the Baltic Sea region (Kaartemo, 2007). A number of recent Chinese overseas acquisitions like Lenovo’s acquisition of IBM’s PC hardware division in 2004, TCL’s acquisition of television manufacturing unit of Thomson SA in 2003 and Shanghai Automotive Industry Corporation’s acquisition of Rovers 25 and 75 models in 2004 verifies ECMs motives to acquire complementary foreign technologies, knowhow, brands and distribution networks.

## **5. Locational Determinants of Indian and Chinese OFDI**

As overtime OFDI by both EIMs and ECMs greatly expanded geographically, especially in the current decade, it is important to examine the influences of host country characteristics on the locational decision of these emerging multinationals. Some countries have been more favourite for these outward investing firms, attracting greater proportion of their OFDI, while some others have been left behind. This section seeks to analyze the cross country patterns of OFDI from India and China and to understand if EIMs and ECMs are attracted by different sets of locational factors.

### **5.1. Analytical Framework**

The ability of a country to attracts FDI by emerging multinationals is generally postulated to be depend upon different types of locational advantages that it possess in relative to that of other competing countries and if these locational advantages matches the requirements of emerging country firms. In Dunning's eclectic theory of FDI, locational advantages are also essential in explaining cross-border investments flows if firms have achieved sufficient ownership advantages and decides to exploit them through direct production activities abroad (Dunning, 1980, 1988). Thus, emerging multinationals, given their endowments of firm-specific resources, are likely to seek better locational advantages like large markets, high growth, investment friendly policies, etc. and would choose the appropriate country for making investments.

Since multinationals from India and China are often argued to be motivated to access new markets, intangible assets and natural resources (Pradhan, 2008d; Balasubramanyam and Forsans, 2009; Deng, 2004; Kaartemo, 2007) host countries possessing relatively large domestic markets and high growth, greater scale of technological and skill endowments and large sources of natural resources like oil, gas, iron ores, metals, etc., are likely to attract more OFDI by these emerging multinationals. The empirical literature on the determinants of FDI inflows consistently suggested an important role for host country market characteristics such as gross domestic product/population and per capita GDP that acts as pull factors for FDI inflows into host countries (UNCTAD, 1993; Hufbauer et. al., 1994; Nunnenkamp and Spatz, 2002; Buckley et. al., 2007; Pearce, Islam, and Sauvart, 1992). Therefore, population (POP), real per capita GDP (PGDP), growth of real per capita GDP (GGDP) that are used as the relevant host market characteristics in the present are expected to be positively related to FDI outflows from China and India.

Buckley et. al (2007), Cheung and Qian (2008) and Kolstad and Wiig (2009) have observed that the cross-country distribution of Chinese OFDI is also affected by host natural resource endowments, in addition to market related variables. EIMs are not far behind in competing for securing natural resources abroad with large scale acquisitions in recent years. In the case of oil and gas, like Chinese case, the state-owned enterprises like ONGC are leading India's natural resource-seeking OFDI. In the case of mineral resources, private firms like Tata Steel, Hindalco, Essar Steel, Sterlite Industries, Gujarat NRE Coke, etc., are the major players. To investigate if these natural resources are in fact important attraction for aggregate OFDI flows from India and China, host countries' exports of mineral fuels including oils (FUEL) and ore (ORE) are included as additional explanatory variables in our empirical framework.

The size of patent filings from residents (PAT) and gross secondary school enrolments (ERNL) are respectively used as measures of technological and skill bases of a host country.



If EIMs and ECMs are strategic asset seekers, one would expect to see increase in their investments into host countries that are relatively excellent with these knowledge resources, *ceteris paribus*.

Host countries' level of imports (IMP) from China is another possible locational factor. The higher a country imports from China (India), the higher is the possibility of Chinese (Indian) firms investing in it. This is because imports act as a spillover channel of more market information to emerging firms, which in turn motivated or required to improve their trade supporting services in this particular export market. In addition, host countries that have entered into bilateral investment treaties (BIT) and double taxation avoidance treaties (DTT) on income and capital with China (India) are likely to have added locational advantage to pull OFDI from EIMs and ECMs.

As per the Gravity model of bilateral trade, distance could be another factor that can affect trade between two countries. As FDI is an alternative to exports, distance (DIST) can play some role as to where emerging multinationals prefers to invests. Outward investing firms from China and India may opt for investment in geographically nearby countries as distance tends to increase transaction costs of managing overseas affiliates.

Specifically the empirical model adopted in this study takes the following form:

$$FDI_{it} = \alpha + \beta_1 POP_{it} + \beta_2 PGDP_{it} + \beta_3 GGDP_{it} + \beta_4 PAT_{it} + \beta_5 ENRL_{it} + \beta_6 FUEL_{it} + \beta_7 ORE_{it} + \beta_8 IMP_{it} + \beta_9 BIT_{it} + \beta_{10} DTT_{it} + \beta_{11} DIST_{it} + u_i \quad (A)$$

where,

$FDI_{it}$  = US\$ FDI flows received by  $i^{th}$  host country from India or China in year t. This has been expressed as per thousand GDP basis for host countries;

$POP_{it}$  = Natural log of population of  $i^{th}$  host country in year t;

$PGDP_{it}$  = Per capita GDP (constant 2000 US\$) of  $i^{th}$  host country in year t;

$GGDP_{it}$  = Annual percentage change in per capita GDP (constant 2000 US\$) of  $i^{th}$  host country in year t;

$PAT_{it}$  = Resident patent applications by per \$ millions of current GDP of  $i^{th}$  host country in year t;

$ENRL_{it}$  = Gross secondary school enrolment (per cent) of  $i^{th}$  host country in year t;

$IMP_{it}$  =  $i^{th}$  host country's US\$ per capita imports from India or China in year t;

$FUEL_{it}$  = Fuel exports by  $i^{th}$  host country as a per cent of its total merchandise or commodity exports in year t;

$ORE_{it}$  = Ore exports by  $i^{th}$  host country as a per cent of its total merchandise or commodity exports in year t,

$BIT_{it}$  = Takes value of one if  $i^{th}$  host country has a bilateral investment treaty with India or China in place in year t,

$DTT_{it}$  = Assumes value of one if  $i^{th}$  host country has a double taxation avoidance treaty with India or China in place in year t,

$DIST_{it}$  = Natural log of distance in thousand kilometers between India or China and  $i^{th}$  host country.

## 5.2. Data Sources

Annual data on EIMs' OFDI flows by host countries during 2001–2007 has been collected from statistics on Indian joint ventures and wholly-owned subsidiaries published online by the Ministry of Finance, Government of India. This data has been supplemented in some cases with

the information obtained from bilateral FDI flows dataset of the OECD. Cross-country annual flows of FDI by ECMs during 2003–2007 have been obtained from 2007 Statistical Bulletin of China's Outward Foreign Direct Investment, Ministry of Commerce, China.

The data related to population, GDP, real per capita GDP, growth of real per capita GDP, secondary school enrolment ratios, fuel exports and ore exports of host countries were drawn from online World Investment Indicators, 2009, which has been accessed through the Global Development Networks. United Nations Commodity Trade Statistics Database was also consulted for supplementary information on fuel and ore exports. Data on resident patent fillings has been collected from the World Intellectual Property Organization, online statistics on patents, 2008. Information on BIT and DTT by partner countries for India and China was collected from the online database of the UNCTAD. Geographical distance (in kilometers) between India and host countries, calculated following the great circle formula that uses latitudes and longitudes of the most important city (in terms of population) or of official capital, has been accessed from the CEPII Distance database, 2006.

### 5.3. Estimation Method and Results

Each year, EIMs and ECMs chooses where and how much to invest among all competing countries. Therefore, not all countries received their FDI in a given year. In this case the dependent variable in *Model A*, assumes a special character with its multiple observations getting clustered at zero representing countries that are not receiving FDI inflows from China or India but takes continuous values for FDI receiving countries. For our estimable sample, observations of countries not receiving FDI account for nearly 33 per cent of total observations for China and 45 per cent for India.

Clearly, Indian and Chinese OFDI flows by host countries are seriously censored in nature and application of ordinary least square estimation or even traditional fixed or random effects of panel data are theoretically not appropriate. Ignoring censored nature of the dependent variable is known to produce bias coefficient estimates and invalid inferences. However, majority of the existing studies on host country determinants of Chinese OFDI (e.g. Buckley et. al, 2007, Cheung and Qian, 2008 and Kolstad and Wiig, 2009) seem to be suffering from this limitation.

Tobin (1958) has suggested the use of likelihood estimation for such models involving non-negatively censored dependent variable and when error term satisfies the classical assumptions, estimates obtained will be unbiased and consistent. In this study we have adopted pooled Tobit estimation with robust standard errors as the relevant method of analysis. A panel Tobit estimation would have been preferably but fixed effect parametric estimator for censored data does not exist and random effect results are quite sensitive to the number of quadrature points used in nonlinear optimization method used by the statistical packages like STATA. All the empirical estimation undertaken in this study has been undertaken with the help of STATA, version 10.

Table-11 summarizes results obtained from Tobit estimations for full sample and subsample of developing host countries. The estimated equations are overall statistically significant by F test and their pseudo R-squares roughly indicates that included explanatory variables are able to explain a reasonable proportion of cross country variations in Chinese and Indian OFDI flows. The explanatory power of the fitted regression is rather modest in the case of

full sample estimation of Indian OFDI flows but found to have relatively better performance for subsample of developing countries.

**Table- 11 Locational determinants of OFDI by ECMs and EIMs**

Independent variables	Chinese OFDI flows		Indian OFDI flows	
	All countries	Developing countries	All countries	Developing countries
POP	0.52684*** (2.98)	-0.03687 (0.10)	0.41085*** (3.48)	0.05344** (2.27)
PGDP	-0.00001 (0.50)	-0.00022 (0.82)	0.00004* (1.77)	-0.00002 (1.04)
GGDP	-0.28221** (2.20)	-0.39739* (1.96)	0.00050 (0.01)	0.00200 (0.24)
FUEL	0.01041 (0.75)	0.03090 (1.52)	-0.00759 (0.71)	0.00011 (0.08)
ORE	0.15386*** (2.95)	0.17822*** (2.89)	-0.02944 (1.47)	-0.00753* (1.76)
PAT	-0.00169* (1.75)	-0.00183 (0.89)	-0.00073* (1.85)	-0.00007 (0.93)
ENRL	-0.01748 (1.00)	-0.01607 (0.57)	0.01366* (1.70)	0.00628** (2.24)
IMP	0.00158*** (3.47)	0.00179*** (2.63)	0.00497* (1.78)	0.00169* (1.72)
BIT	0.04474 (0.10)	-1.17224 (1.13)	0.44637 (0.95)	-0.05440 (0.81)
DTT	1.43201 (0.78)	1.91587 (0.86)	2.09089 (1.38)	0.11257 (1.25)
DIST	-2.86037** (1.99)	-3.24477* (1.95)	-0.65360 (1.16)	-0.13682** (2.31)
Constant	-3.72878 (0.79)	7.55328 (0.85)	-10.74545*** (3.47)	-1.27993*** (2.70)
F value	2.87	2.86	2.04	2.98
Prob > F	0.0014	0.0023	0.0236	0.0012
Pseudo R2	0.2011	0.1893	0.0338	0.2517
Obs. with FDI receiving countries	198	100	232	88
Obs. with non-host countries	98	32	192	106
Total obs.	296	132	424	194

Note: Robust t statistics in parentheses; \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

Among the host country demand factors, POP is statistically significant with a predicted positive sign while explaining FDI flows by EIMs and ECMs directed at all countries. In the case of subsample developing countries it remains positively significant for EIMs but its effect is statistically not different from zero for ECMs. PGDP turn out to be nearly significant only for EIMs in the full sample, elsewhere it comes up with never significant effects. The growth of the host countries, GGDP, has consistently a positive insignificant effect for EIMs while it has always a negative and significant effect for ECMs. These results suggest that EIMs and ECMs both are generally more attractive towards larger countries represented by large populations while making their overseas investments. Emerging multinationals from China, however, are not sensitive to PGDP or income levels of host countries while EIMs tend to have some concentration of their OFDI in upper income countries. For Indian multinationals, large and relative size of the host markets are important but growth appears to be a minor consideration. Chinese multinationals, on the contrary,

appeared to have invested heavily in countries that not enjoying higher growth in a global comparison.

The performance of two variables, FUEL and ORE, employed to examine any special attraction of emerging multinationals toward overseas natural resources, suggests some effects in the case of ore and metals. While FUEL failed to achieve any significant effects for both ECMs and EIMs, ORE's highly significant and positive coefficients for Chinese OFDI flows can be noted. This shows that Chinese multinationals are motivated to set up overseas bases in countries having abundance in mineral resources. However, the negative and modestly significant effect of ORE for EIMs in the case of developing countries subsample reminds that not all multinationals from other emerging countries share Chinese multinationals' greater enthusiasm for natural resource-seeking activities. For certain Indian firms accessing natural resources abroad is an empirical goal but that motivation get overshadowed at the aggregate level. The poor performance of FUEL, especially in the case of China, does raise questions about its measurement. Using exports data to proxy for fuel reserves of host countries is appear to be not a satisfactory approach and future work employing some index of the natural resource reserves could throw more insights on this aspect.

PAT has consistently negative sign across different sample estimations for both EIMs and ECMs. These effects were significant for emerging multinationals in the full sample of countries but loose significance in the case of developing country subsample estimations. This negative effect of PAT is against our stated hypothesis that Indian and Chinese multinationals would invest in technologically advanced countries as they are often argued to have strategic asset-seeking motivation. However, empirically countries with high innovation capability are likely to receive relatively less FDI from EIMs and ECMs. This result surprisingly lend support to an old argument about developing country multinationals formulated during 1960s–80s, which some researchers might think is outdated in the recent phase of rapid globalization, internationalization of R&D and rapid technological developments in emerging countries. This old hypothesis states that emerging country firms have limited scale of technological and product differentiation advantages and hence likely to invest more in developing countries (which are technologically weak countries) as opposed to developed countries (Wells, 1983; Lall (ed.), 1983). This hypothesis partly flows from product life cycle theory (Vernon, 1966) which treats developing countries as technological laggards and imitators rather than innovators. Therefore, when the host population comprises developed countries along with developing countries, emerging multinationals still faces some technological barriers to their investments. The role of technological barrier, which might have been extremely significant for cross country patterns of FDI from emerging markets in the past, has becoming moderate in the current years as PAT achieves only a modest 10 per cent level of significance as opposed to 5 per cent or 1 per cent level.

ENRL has an expected positive and significant effect on FDI by EIMs in the full and developing country subsamples but a modestly negative effect for ECMs in full sample. This reveals that the skill levels of host countries are exerting a significant influence on locational decision of EIMs but Chinese OFDI reflected a high concentration in countries that are generally low in skills. Indian OFDI in recent years is led by knowledge intensive sectors like software, pharmaceuticals, automotive, chemicals, etc., and they require availability of skilled workers in host country to supports their OFDI operation.

The strength of trade link that a host country has with India and China appears to be another crucial locational factor pulling emerging country OFDI. IMP has a positive effect throughout, strongly significant for ECMs but modestly significant for EIMs. Therefore, more imports from India and China by countries improve their possibility of hosting Indian and Chinese investments. This result also indicates that a substantial part of OFDI by ECMs and EIMs are driven by their motivation to support growing export activities. The Chinese and Indian multinationals are pushing up their trade supporting OFDI in recent years to beat increasing competition in overseas export markets and to increase their global market share.

BITs and DTTs, both offering investment incentives to locate in certain countries having these agreements with the home country, have failed to achieve any effect that is statistically acceptable. That would broadly indicate that OFDI by EIMs and ECMs are overwhelmingly explained by host factors other than BITs and DTTs. DIST turn out with a negative sign and is statistically significant for ECMs in the full and developing subsamples and for EIMs in the developing country subsample. From this it can be infer that emerging Chinese and Indian multinationals, like in the past, continue to be more inclined to locate their investments within the neighbouring region notwithstanding the dramatic increase in the actual number of their host countries in recent years.

## **6. Conclusion**

The analysis in the study has shown that foreign expansion of Chinese and India firms through overseas investments started in 1950s and 1960s respectively. In the early period upto 1970s, Indian outward investing firms were largely from private sector and had greater geographical and sectoral profile than state-owned Chinese multinationals. Indian OFDI was manufacturing driven while Chinese OFDI was led by service activities. However, the number of emerging multinationals from India and China and the size of their OFDI was quite modest and mostly remain limited to neighbouring developing countries.

By the 1980s, OFDI by ECMs surpassed that conducted by EIMs as a result of China opting for an outward looking development strategy while India continuing with her inward looking policies. The high domestic growth, substantial improvements in domestic created assets by promoting export-oriented and JV form of inward FDI and pursuance of a liberal OFDI policy saw Chinese multinationals emerging from all the three economic sectors and investing in increasing number of countries. Chinese OFDI in the 1980s was led by service, manufacturing and primary sector firms. The Chinese government was quick to realize the criticality of natural resources for sustaining a high growth economy and state-owned ECMs were assigned with the task of securing access to these resources globally. Indian OFDI, on the other hand, remain stagnated in this period as the Indian firms were not allowed to increase their scale of operation and were strongly protected behind tariff barriers and restrictive policies towards inward foreign investments. Technologically stagnated Indian firms could hardly think beyond their protected markets in the 1980s. The existing restrictive OFDI policy further negated the capability of Indian firms to invest abroad. Sectorally, service firms started contributing substantial proportion of Indian OFDI standing closely behind manufacturing firms.

The decade of 1990s has seen dramatic growth of OFDI from India starting from a low base and striking changes in the nature of such investments. The transformation of overall economic policies of India to be an outward looking and emergence of global trade regimes have unshackled entrepreneurship, competition and firms technological dynamism to

survive. The high domestic growth, growing exports, booming capital markets, increasing foreign competition and liberalization of OFDI policy supported revival of Indian OFDI during this period. In terms of OFDI growth rate India outstripped China in this period. This is also because Chinese OFDI policy regime got relatively cautious in this period. Indian OFDI profile now registered a marked improvement in the share of primary sector indicating the rise of natural resource-seeking OFDI from India on a sustainable basis. During this period, both EIMs and ECMs had well representation in all the three economic sectors, were found to choose full ownership in their overseas ventures as against joint ownership preference of the past, and started allocating a greater share of their OFDI to developed region.

The 2000s witnessed continuing high growth of OFDI made by ECMs and EIMs. The large foreign exchange reserve, growing need to secure natural and knowledge resources abroad and a view to promote global multinationals from China, the Chinese government adopted the 'go global' policy providing greater impetus to Chinese firms' OFDI activities. However, interestingly a greater proportion of Chinese OFDI is again accounted for by the service and primary sector with manufacturing sector some what falling behind. The continuing liberalization of OFDI policy by India and growing internationalization needs of software, pharmaceuticals and automotive Indian firms to have overseas presence, new markets and new technologies continue to fuel Indian OFDI. The large scale overseas acquisition in metal, oil and automotive sector are contributing to the rising OFDI flows from India. As against the Chinese OFDI that is flowing more into developing region in 2000s, Indian OFDI is clearly more directed at developed region. Moreover, Indian OFDI flows are having reasonable representation of all the three economic sectors in such investments.

The response of EIMs and ECMs to the current global economic crisis has been quite opposite for these two groups of emerging multinationals and tends to reconfirm the obvious fundamental difference that characterizes them. Indian OFDI went down in the crisis year whereas Chinese OFDI becomes doubled. It shows that Indian OFDI, primarily driven by private sector firms, is strongly determined by the overall market conditions, while state-driven Chinese OFDI remain independent of these factors. ECMs' OFDI is crucially determined by political, security and economic interests of the Chinese state rather than by market forces.

The analysis of leading EIMs and ECMs further shown that internationalizing Indian firms are generally smaller in size than their Chinese counterparts and in terms of absolute scale of foreign operation, EIMs are far behind than ECMs. However, in terms of degree of internationalization, EIMs are comparable to ECMs and are even far better internationalized. The motivations of both these multinationals are multifaceted, varies from market-seeking to strategic asset-seeking to natural resource-seeking across different firms and sectors. Leading Chinese multinationals are majority state-owned but the rise of a few private players can also be noticed. As opposed to ECMs, leading EIMs are dominantly private owned.

In general, both EIMs and ECMs are inclined to invest more in closer and larger host countries and that have greater import dependence from home country. These results underlined the role the market-seeking and export-supporting motives of emerging multinationals. It also corroborates that emerging multinationals, though investing in a large number of countries now, are yet to break from their past regional bias of investing in closer location. As technological capability of host countries tend to discourage OFDI from emerging multinationals, which suggests that these firms still face technological barriers while investing in advanced countries. It is surprising that emerging multinationals,

notwithstanding the rapid technological developments in their home countries in the past decade, are still wary of operating in developed countries. An implication of this finding is that emerging multinationals are likely continue with overseas acquisition as a strategy to overcome this technological barrier as happened in the last few years. Emerging multinationals hoping to be truly global players can simply remain as emerging unless they use strategic foreign assets acquisition to further their technological capabilities.

EIMs are found to be investing in skill intensive host countries as compared to ECMs. The knowledge-intensive sectoral profile of Indian OFDI has generally favoured host countries with abundance in skill resources. The natural resource assets of host countries appear to be an important consideration for ECMs, but not so for Indian OFDI. This desire of ECMs to acquire natural resources abroad is entirely backed by active state policy providing the necessary financial resources and political influence to the designated state-owned enterprise.

## Reference

- Balasubramanyam, V.N. and N. Forsans (2009), 'Science, Technology and Development: The Case of India's Investments Abroad', Paper Presented at the International Conference on *Science, Technology and Economy: Emerging and Developed Countries*, Forum for Global Knowledge Sharing, (Knowledge Forum) and Tata Institute of Social Sciences, 9–10, October, Mumbai.
- Buckley, P.J., A.R. Cross, H. Tan, X. Liu and H. Voss (2008), 'Historic and Emergent Trends in Chinese Outward Direct Investment', *Management International Review*, 48(6), pp. 715–748.
- Buckley, P.J., L. J. Clegg, A.R. Cross, X. Liu, H. Voss and P. Zheng (2007), 'The determinants of Chinese outward foreign direct investment', *Journal of International Business Studies*, 38, pp. 499–518.
- Cheung, Y-W and Qian, X. W. (2009), 'The empirics of China's outward direct investment', Mimeo, University of California, Santa Cruz, USA.
- Davies, K. (2009), 'While global FDI falls, China 's outward FDI doubles', *Columbia FDI Perspectives*, No. 5, Vale Columbia Center on Sustainable International Investment, Columbia University.
- Deng, P. (2004), 'Outward investment by Chinese MNCs: Motivations and implications' *Business Horizons*, 47(3), pp. 8–16.
- Dunning, J.H. (1980), 'Toward an Eclectic Theory of International Production: Some Empirical Results', *Journal of International Business Studies*, 11, pp. 9–31.
- Dunning, J.H. (1988), 'The eclectic paradigm of international production: A restatement and some possible extensions', *Journal of International Business Studies*, 19, pp. 1–31.
- Economist* (2007), 'Emerging multinationals: Identifying the world's rising multinationals', December 06.
- Economist* (2009), 'Emerging-market multinationals: Not so nano', March 26.
- FUDAN and VCC (2008), 'Chinese Multinationals Make Steady Progress', Press Release, School of Management at Fudan University and Vale Columbia Center on Sustainable International Investment, October 22.
- Hufbauer, G., D. Lakdawalla and A. Malani (1994), 'Determinants of Direct Investment and its Connection to Trade', *UNCTAD Review*, pp. 39–51.
- Icksoo, Kim (2009), 'Inward and Outward Internationalization of Chinese Firms', *SERI Quarterly*, pp. 22–31, Samsung Economic Research Institute, Seoul, Korea.
- ISB and VCC (2009), 'The Growth Story of Indian Multinationals', Press Release, Indian School of Business and Vale Columbia Center on Sustainable International Investment, April 9.
- Kaartemo, V. (2007), 'The Motives of Chinese Foreign Investments in the Baltic Sea Region', *PEI Electronic Publications*, No. 7/2007, Pan-European Institute.
- Kolstad, I. and A. Wiig (2009), 'What Determines Chinese Outward FDI?', *CMI Working Paper*, No. 2009: 3, Chr. Michelsen Institute, Norway.
- Lall, S. (1983) (ed) *The New Multinationals: The Spread of Third World Enterprises*, John Wiley & Sons New York.
- Lecraw, D.J. (1977), 'Direct investment by firms from less developed countries', *Oxford Economic Papers*, 29 (3), pp.442–457.
- Nolan, P. (2001), *China and the Global Economy: National Champions, Industrial Policy and the Big Business Revolution*, New York: Palgrave.
- Nunnenkamp, P. and J. Spatz (2002), 'Determinants of FDI in developing countries: has globalization changed the rules of the game?', *Transnational Corporations*, 11, pp. 1–34.
- OECD (2008), 'China's Outward Direct Investment', *OECD Investment Policy Reviews: China 2008*, pp. 65–142.



- Pearce, R., A. Islam, and K. Sauvart (1992), 'The Determinants of Foreign Direct Investment, A Survey of Empirical Evidence', *United Nations Centre on Transnational Corporations*, United Nations, New York.
- Pradhan, J. P. (2009), 'Indian FDI falls in global economic crisis: Indian multinationals tread cautiously', *Columbia FDI Perspectives*, No. 11, Vale Columbia Center on Sustainable International Investment, Columbia University.
- Pradhan, J.P. (2008a), 'The Evolution of Indian Outward Foreign Direct Investment: Changing Trends and Patterns', *International Journal of Technology and Globalisation*, 4, pp.70–86.
- Pradhan, J.P. (2008b), 'Rise of Indian Outward FDI: What Implications Does It Hold For Host Developing Countries?', *Revista Economía: teoría y práctica*, 29, forthcoming. Also released as *ISID Working Paper*, No. WP2008/08.
- Pradhan, J.P. (2008c), 'India's Emerging Multinationals in Developed Region', *MPRA Paper* No. 12361, University of Munich Library, Germany.
- Pradhan, J.P. (2008d), *Indian Multinationals in the World Economy: Implications for Development*, Bookwell Publisher, New Delhi.
- Rao, J. M. (1996), 'Manufacturing Productivity Growth: Method and Measurement', *Economic and Political Weekly*, 31 (44), pp. 2927–36.
- Rosen, D. H. and T. Hanemann (2009), 'China's Changing Outbound Foreign Direct Investment Profile: Drivers and Policy Implications', *PGPIIE Policy Brief*, No. PB09-14, Peter G. Peterson Institute for International Economics.
- Sung, Y-W, (1996), 'Chinese Outward Investment in Hong Kong: Trends, Prospects and Policy Implications', *OECD-DC Working Paper*, No. 113, OECD Development Centre.
- Tan, R. (1999), 'Foreign Direct Investments Flows to and from China', *PASCN Discussion Paper*, No. 99-21, Philippines APEC Study Center Network.
- Tobin, J. (1958), 'Estimation for Relationships with Limited Dependent Variables', *Econometrica*, 26, pp. 24–36.
- UNCTAD (1993), *Explaining and Forecasting Regional Flows of Foreign Direct Investment*, United Nations, New York.
- UNCTAD (2009), 'Global Foreign Direct Investment now in decline -- and estimated to have fallen during 2008', UNCTAD/PRESS/PR/2009/001/Rev.1, January 19.
- Vernon, R. (1966), 'International investment and international trade in product cycle: The case of US firms', *Quarterly Journal of Economics*, 80, pp. 190–207.
- Wells L. T. (1977), 'The internationalization of firms from Developing Countries', in T. Agmon and C. P. Kindleberger (eds.), *Multinationals from Small Countries*, M.I.T Press: Cambridge, Massachusetts and London, pp. 133–156.
- Wells, L. T, Jr. (1983), *Third World Multinationals*, Cambridge, Massachusetts: MIT Press.
- Whalley, J. and X. Xin (2007), 'China and Foreign Direct Investment', *Brookings Trade Forum*, pp. 61–103.
- Wong, J. and S. Chan (2003), 'China's Outward Direct Investment: Expanding Worldwide', *China: An International Journal*, 1-2, pp. 273–301.
- WTO (2009), 'World Trade 2008, Prospects For 2009', Press Release, No. 554, March 23.
- Wu, H.-L. and C.-H. Chen (2001), 'An Assessment of Outward Foreign Direct Investment from China's Transitional Economy', *Europe-Asia Studies*, 53, pp. 1235–1254.

## Appendix

**Table-A1 Strategic Motives of Selected EIMs**

Indian company	Managerial comments on overseas investment/acquisitions
Tata Steel Ltd.	<p>“The acquisition of the steel business of NatSteel is an important step in Tata Steel's plans to build a global business. NatSteel's business provides Tata Steel access to key Asian steel markets including China. I believe that the acquisition will prove to be a good strategic fit and create value for Tata Steel shareholders.” Mr. B. Muthuraman, Managing Director, Tata Steel.</p> <p>“This proposed acquisition represents a defining moment for Tata Steel and is entirely consistent with our strategy of growth through international expansion. Corus and Tata Steel are companies with long, proud histories. We have compatible cultures of commitment to stakeholders and complementary strengths in technology, efficiency, product mix and geographical spread.” Mr. Ratan Tata, Chairman, Tata Steel.</p>
Hindalco Industries Ltd.	<p>“The acquisition of Novelis is a landmark transaction for Hindalco and our Group. It is in line with our long-term strategies of expanding our global presence across our various businesses and is consistent with our vision of taking India to the world. The combination of Hindalco and Novelis will establish a global integrated aluminium producer with low-cost alumina and aluminium production facilities combined with high-end aluminium rolled product capabilities. The complementary expertise of both these companies will create and provide a strong platform for sustainable growth and ongoing success.” Mr. Kumar Mangalam Birla, Chairman, Aditya Birla Group.</p>
ONGC Ltd.	<p>“We have budgeted more than Rs 6,000 crore annually for acquisitions of oil and gas fields abroad. This figure may go up depending upon the investment requirement for developing a particular field.” Mr Subir Raha, Chairman and Managing Director, ONGC.</p>
Tata Consultancy Services Ltd.	<p>“Our growth strategy has been a combination of organic and inorganic growth. This acquisition (of Phoenix Global Solutions ) is in line with a focus to consolidate on the strengths developed by TCS over a period of time in the financial industry segments. This acquisition will give us an impetus to attract new customers and help grow our existing customers.” S Ramadorai, CEO and MD, TCS.</p> <p>“This acquisition (of TKS) is very important on two fronts. It gives TCS a direct presence in the key markets of Switzerland and France with an ability to serve customers with a single face, from sales to delivery. The TKS acquisition also helps TCS expand its product portfolio in the banking and financial services space, not only by acquiring marketing and distribution rights to QUARTZ® but also by adding new products in the private banking and wealth management space.” S. Ramadorai, CEO and MD, TCS.</p>
Aditya Birla Minacs Ltd.	<p>“The acquisition (of Minacas Worldwide) demonstrates our commitment to emerge as a leading global BPO services provider and expand our global footprint. The integrated expertise of both companies will create and provide more powerful and compelling BPO solutions to clients. The result will be a firm with distinctive industry knowledge and execution capability delivered through a unique 'same-shore, near-shore, offshore' global delivery platform. The objective will be to reliably deliver outstanding BPO services to global clients from anywhere in the world.” Mr. Kumar Mangalam Birla, Chairman, Aditya Birla Group.</p>
Wipro Ltd.	<p>“This acquisition (of Hydrauto Group AB) gives WIN a unique Asia-Europe footprint, a customer base built over the past few decades and deep complementary engineering skills. Being together will have a multiplier effect on competitiveness..” Anurag Behar, Managing Director- Wipro Infrastructure Engineering</p>
Tata Chemicals Ltd.	<p>“The acquisition of GCIP will lead to sizeable increase in TCL's global soda ash capacity, making it one of the largest soda ash producers worldwide. The merger will provide TCL access to markets in North America, Latin America and the Far East which complement its existing markets.” Homi Khusrokhhan, MD, TCL.</p>
United Phosphorus Ltd.	<p>“The acquisition of Advanta allows UPL to jump start our entry in the high end of the seeds business where the future of agriculture growth lies. This transaction not only makes us the largest player in some segments but also gives us leadership position in many important products. At the same time, it allows us further our relationship with distributors and farmers in these markets. Mr. Jai Shroff, Executive Director, UPL.</p>
	<p>“After considerable growth both organically and through acquisitions in the USA, Argentina,</p>

	Europe, and in India, UPL had been actively pursuing opportunities for growth in Latin America. Evofarms represents UPL's first acquisition in the Andean Region which is an interesting & fast growing Agchem market." Mr. Jai Shroff, Executive Director, UPL.
Wockhardt Ltd.	"It (acquisition of Negma Laboratories) will provide the right entry vehicle to enter the French generics market valued at \$2 billion, leveraging Wockhardt's robust EU portfolio and impressive pipeline. With this acquisition, Wockhardt will enjoy a pan-European presence, covering all the key markets of Europe, namely, Germany, the U.K., Ireland and now France," Habil Khorakiwala, Chairman, Wockhardt.  "Morton Grove is strategic to Wockhardt. It provides entry into the US generic market with a portfolio of 31 products, 13 of which occupy the number one market position. All others are in the top three. This represents a clear demonstrable strength in sales and marketing." Habil Khorakiwala, Chairman, Wockhardt.
Matrix Laboratories Ltd.	"The acquisition of Docpharma accelerates our evolution as a growing force within the global generic pharmaceutical industry. This transaction allows us to gain direct access into the under-represented, high growth generic pharmaceutical markets of Belgium and Southern Europe," Mr N. Prasad, Chairman and CEO, Matrix Laboratories.
Dr. Reddy'S Laboratories Ltd.	"We see our investment in betapharm as a key strategic initiative towards becoming a mid-sized global pharmaceutical company with strong presence in all key pharmaceutical markets. betapharm has created a strong growth platform and is well positioned for the future and we are looking forward to partner with them in building a strategic presence in Europe." Dr Anji Reddy, Chairman, Dr. Reddy's Laboratories.
Sun Pharmaceutical Inds. Ltd.	"We are keen on a strategic acquisition in the US that will strengthen the company's presence in manufacturing as well as marketing of complex molecules in the US market." Dilip S Shanghvi, Chairman & MD, Sun Pharma.  "The purchase of this site (Valeant Pharma's manufacturing operations in Hungary) offers us an early opportunity to enter the European generic space, building on our strengths in bulk actives and product development. This will complement our European entry strategy with our UKMHRA approved plant in India, and will allow for a quick product roll out." Dilip S Shanghvi, Chairman & MD, Sun Pharma.

*Source:* Collected from various company press releases and interviews of managers reported in various newspapers and business reports.