Emerging Pattern of India's Outward Foreign Direct Investment Under the Influence of State Policy: A Macro View

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Emerging growth dynamism of Indian economy in rapidly globalising world is highly recognised and commented by a large body of researchers during the recent period. In fact, the Indian planning has made long concerted effort to develop strategic and competitive capabilities in the agents of production. During the recent periods, these capabilities have started paying. Such trends became more lucid with the strengthening of Indian capital especially abroad as the Indian capital has initiated collaborations and mergers with the global players. This study provides insights into such achievement of the Indian economy. Besides providing a review of theory and practice of emerging multinationals from developing countries, this paper examines India's outward foreign direct investment in an evolutionary perspective. In its endeavor, the study besides tracing the emerging pattern of India's outward foreign direct investment, hints at the facilitating role of state policy to encourage the outflow of foreign direct investment.

1. Introduction

During recent years, the Indian economy has shown high dynamism in its process of structural transformation and economic growth. Such achievement has been the result of long concerted efforts made by the Indian government to develop strategic capabilities in (economic) production agents. It is noteworthy that the innovations system put in place by the Indian development strategy, which itself has undergone unprecedented changes from import substitution to nearly open system, has developed and nurtured some strategic and unique cost reduction capabilities in economic agents of production. The Indian policy regime, guided by national development priorities, allowed Indian enterprises to invest abroad for attaining not only the economies of scale but also to remain competitive vis-à-vis their counterparts in other nations. Earlier phase of Indian economic development, under restrictive policy regime (to invest abroad), aimed at boosting domestic investment, which enabled Indian enterprises to learn adaptive capabilities whereas the second phase of Indian economic development encouraged Indian companies to invest abroad for reducing the deficiency of strategic asset requirements for sustaining domestic development process. Consequently, during the recent phase of fast economic growth, the Indian enterprises have been expanding both in the domestic and international market while competing with the global brands and multinational enterprises. The Indian enterprises have long experience of investing abroad in technologically either low or equal level countries (happened to be India's strategic trading partners) but the recent phenomena of investment spurt in developed countries as well has gained momentum and thereby need to be examined seriously.

In this line, the present paper examines, in an evolutionary perspective, India's outward foreign direct investment and in its endeavor, the paper besides tracing the emerging pattern of India's outward foreign direct investment hints at the facilitating role of state policy to encourage the outflow of Indian foreign direct investment. The paper is spread across five sections. Besides this (first) introductory section, second section provides a review of theory and practice of emerging multinational corporations belonging to developing countries. The changing structure of Indian outward foreign investment, both country-wise and industry-wise, is discussed in section three. The facilitating role of Indian state policy, since 1974, to encourage outward foreign direct investment is examined in the fourth section whereas the emerging conclusions are discussed briefly in the last (fifth) section.

2. MNCs' Emergence from Developing Economies: Theory and Empirics

Recently, international expansion of business has attracted attention of a large number of researchers. The theory of international operation of firm has sought to understand the major determinants influencing 'Outward Foreign Direct Investment' (OFDI, hereafter). The established theories of international investment based on the experience of industrially advanced country firms suggest that the competitive advantage allows firms to expand business and secure higher returns. The theoretical perspectives on the international operation of firm have evolved from Hymer (1976), Dunning (2000) and several others. The unique competitive advantage possessed by firms is based on innovation activity largely concentrated in the home country. This unique competitive advantage, in the form of ownership, location and internationalization, allows firms to acquire monopolistic or oligopolistic power in the market and expand their businesses internationally through investments, mergers and acquisitions. It is widely recognized fact that the national innovation system of the emerging developing economies and emerging multinational enterprises of the developing countries do not possess such unique competitive advantage primarily due to the infancy of their national innovation systems. Consequently, the emerging multinational enterprises of these developing economies internationalize businesses mainly to acquire competitive advantage, which they do not possess (Nayyar, 2008). Under such circumstances, the theoretical developments explaining motives behind internationalization of business by firms, based on the experience of industrially advanced country firms, remain inadequate to explain recent spurt in internationalization of firms from developing economies (including India).

Mathews (2006), based on outward foreign direct investment from newly industrializing East Asian countries, explains that firms of emerging developing countries make overseas investments to secure strategic resource for enhancing their learning capabilities. The emerging multinational firms from developing economies seem to have been using defensive and assertive options leveraging on their unique assets or resources (Dawar and Frost, 1999). Khana and Palepu (2006) has argued that the emerging multinational firms of developing countries possess distinct advantage to deal with institutional voids that can be exploited to counter foreign multinational firms both in the local economies and can be extended to international markets. Aulakh (2007) has argued that the 'emerging economy multinationals' use the existing ownership advantage to pursue the acquisition of complementary resources and capabilities required to develop potential competitive advantage for survival in more competitive environments.

More recently, the rules and regulations governing the international firms have been dramatically altered to facilitate operations of the foreign firms (UNCTAD, 2008). Opening up of capital markets have been made easier (than before) for emerging multinational enterprises from developing countries to raise equity capital and debt besides facilitating their listing of shares on foreign stock exchanges. These firms have been encouraged by emerging developing countries as well as they (home countries) have made suitable policy changes to enable their firms raise equity capital and debt from foreign markets (Ramamurti, 2008; RBI, 2009). Thus, it emerges from above brief review of literature that there are multiple and complex factors, such as market access for exports, horizontal/vertical integration, delivery of services, acquisition of international brand names, access to technology and resources, and to aspiration of global leadership, driving the internationalization of firms.

3. Trend and Pattern of Indian Outward Foreign Direct Investment (OFDI)

During recent phase of globalization, the outward foreign direct investment has dramatically increased (Table 1). The OFDI stock of the world as a whole has increased from US $1,785,267 million in 1990 to US $6,148,211 million in 2000 and further increased to US $15,602,339 million in 2007. The share of the stock of world OFDI in the global gross domestic product increased from 9.10 per cent in 1990 to 18.10 percent in 2000 and further increased to 27.90 per cent in 2007. On the other hand, stock of OFDI of the developing economies was US $144,862 million in the year 1990, which was just 4 per cent of the gross domestic product of the developing economies. During the 1990-2000 period, the stock of OFDI of the developing economies has grown at a fast rate than that of the total world stock of OFDI. The share of stock of OFDI of developing economies increased from 4 per cent in 1990 to 12.90 percent in the year 2000. This rapid rise in magnitude of OFDI stock of developing countries was essentially attributed to the emergence of multinational firms from developing countries.

There is a qualitative change in the pattern of international investment abroad by emerging multinational companies from the developing countries, which has drawn the attention of several scholars interested in understanding this phenomenon (Dunning et al., 1998; Gammeltoft, 2008; UNCTAD, 2006). The noteworthy feature of stock of both global and developing economies OFDI was that there was slow rise in the stock of OFDI between the period 2000 and 2007. The rise of stock of OFDI from developing countries increased more than two times faster than that of the global stock of OFDI. However, the rise of stock of OFDI from both the developing and global economies was nearly similar. Contrary to this, the stock of OFDI from India increased sixteen times during the 2000-07 period whereas it was just more than two and half times in the case of developing economies.

This dramatic rise in OFDI from India needs an explanation. It is pertinent to notice here that both outward and inward flows of investment in the Indian economies increased quite rapidly with some spurts in some of the years (Table 2). The average foreign direct investment inflows, during the 1995-2007 period, were US $ 6,771.23. Except the years

1998, 1999 and 2003 where investment was below the earlier levels, the foreign direct investment inflows have increased substantially during the period under consideration.

Table 1: Global Trend of OFDI, 1990-2007 (US $ Millions)

Year	World	Developing Economies	Developing Economies' share in World	India
1990	1785267 (09.10)	144862 (04.00)	08.11	124 ---
2000	6148211 (18.10)	861842 (12.90)	14.02	1859 (00.40)
2007	15602339 (27.90)	2288073 (16.50)	14.66	29412 (02.60)

Note: Figures in parentheses are percentage of GDP.
Source: UNCTAD (2008).

Table 2: India's Foreign Direct Investment Inflows and Outflows (US $ Millions)

Year	Inward FDI	Outward FDI
1995	2125	119
1996	2525	240
1997	3619	113
1998	2633	47
1999	2168	80
2000	3585	509
2001	5472	1397
2002	5627	1669
2003	4323	1879
2004	5771	2179
2005	7606	2978
2006	19622	12842
2007	22950	13649
Total	88052	37711

Source: UNCTAD (2008).

Table 2 reveals that the outward foreign direct investment from was quite meager from 1995 to 1999 and it increased from US $ 119 million in 1995 to US $ 243 million in the year 1996. The OFDI from India started declining after 1996 and was only US $ 47 million in the year 1998. It was raised to US $ 80 million in the year 1999. During the whole period (1995-2007), the average increase in OFDI was US $ 2900.08 million. However, a consideration of the 2000-2007 period reveals that the average annual rise in the OFDI from India was US $ 4637.75 million. Comparative analysis of the flows of FDI and OFDI clearly brings out the fact that FDI inflows continuously remained higher than that of the OFDI flows. However, the gap between the FDI and OFDI flows, which were very wide before the year 2000, has been narrowed down substantially after the year 2001. That is why the 2001-2007 period has been described as the arrival of Indian companies in the developed countries and expanded Indian investment abroad. This spurt of outflows of investment abroad has been taken with surprise. Thus, the scrutiny of such new trends is essentially being done from the point of view of both theory and public policy in understanding the process of the emergence of Indian companies as global players (Aulakh, 2007; Ramamurti, 2008).

The share of OFDI in various sectors (over time) is presented in Table 3 to reveal the sources of OFDI from India. It has been the manufacturing sector that has contributed largely to OFDI from India. The share of the manufacturing sector was 23.84 percent in the year 2000-01. Thereafter the share of manufacturing sector increased to 53.82 percent in 2001-02 and further jumped to 70.69 percent in 2002-03, which is the highest relative contribution of the manufacturing sector across sectors and over time. The manufacturing sector's share declined in the year 2003-04, but was of the order of 60 percent. It slightly picked up in the next two years and again its relative contribution started declining substantially and was 26.34 per cent of the total investment abroad during 2006-07. Thereafter, the share of manufacturing sector increased to 34.85 percent during 2007-08. The major manufacturing industrial groups in which Indian investment have been made were chemical and allied products, transport equipment, primary metal and fabricated metal products, electronic and other electrical equipment except computers, measuring analyzing and controlling equipments and pharmaceuticals.

The description of Indian economy as the 'Office of Global Economy' signifies the worldwide recognition of well-developed service sector of its economy. Therefore, the importance of non-financial sector in terms of its contribution to the total investment abroad is but natural. The share of non-financial service in the OFDI from India was 66.29 percent in the year 2000-01. However, the share of non-financial services declined sharply since 2000-01 and the manufacturing sector contributed substantially during the early years of the 21st century. Among the non-financial sector, the business services dominated in terms of their contribution to India's OFDI. The other services that have contributed substantially to India's OFDI were engineering, accounting, research, management and related services, communication, hotels, security and insurance. The OFDI related to trade, during the 2000-08 period, has assumed third place in terms of its contribution to the total OFDI from India. The share of trading related services in OFDI from India was just 7.33 percent in the year 2000-01 and slowly increased during the period of analysis and was of the order of 50.21 percent in the year 2007-08. It is worth noticing here that India's OFDI in financial services remained negligible during the period under consideration (Table 3).

Table 3: Sectoral Distribution of India's OFDI, 2000-01 to 2007-08, (US $ Millions)

Year	Manufacturing	Financial Services	Non-financial Services	Trading	Others	Total
2000-01	169 (23.84)	6 (00.85)	470 (66.29)	52 (07.33)	12 (01.69)	709 (100)
2001-02	528 (53.82)	4 (00.41)	350 (35.68)	79 (08.05)	20 (02.04)	981 (100)
2002-03	1271 (70.69)	3 (00.17)	404 (22.47)	82 (04.56)	38 (02.11)	1798 (100)
2003-04	893 (59.77)	1 (00.07)	456 (30.52)	113 (07.56)	31 (02.07)	1494 (100)
2004-05	1170 (65.88)	7 (00.39)	304 (17.12)	192 (10.81)	100 (05.63)	1776 (100)
2005-06	3407 (67.46)	160 (03.17)	895 (17.72)	377 (07.46)	207 (04.10)	5050 (100)
2006-07	3545 (26.34)	28 (00.21)	7486 (55.62)	1739 (12.92)	656 (04.87)	13459 (1000
2007-08	6240 (34.84)	26 (00.14)	1635 (09.13)	8993 (50.21)	1010 (05.64)	17910 (100)

Source: RBI Annual Reports, 2005-06 and 2007-08.

The presence of Indian companies abroad has attracted the attention of both media and academics alike due to reason that the aggressive poster adopted by the Indian companies to purchase companies in the developed countries in the recent past. The evidence of international investment made by Indian companies abroad through mergers and acquisitions is presented in Table 4. It becomes evident from the analysis of sale and purchases of the Indian companies in the form of mergers and acquisitions abroad that the total sales during the period 2000 to 2008 was US $ 22991 million. Whereas the total purchases were of the order of US $ 56114 million during the same period. Thus, the aggressive mergers and acquisition strategy of the Indian companies resulted into purchases larger than the sales of the order of US $ 33123 million. Out of the nine years period under consideration, the purchases exceeded sales with substantial margin in six years. The purchases made by Indian companies abroad between the period 2005 and 2008 were substantially higher than earlier years.

The consistent rise in the value of OFDI in mergers and acquisitions by Indian companies has provided the status of 'Global Players' to Indian companies. Available evidence on mergers and acquisitions of Indian companies abroad shows that more than 40 per cent were in manufacturing sector (pharmaceuticals, automotive, consumer goods, chemicals, fertilizers, and metals). However, the 30 percent share of mergers and acquisitions has gone to sectors like IT, software and business process outsourcing (CMIE, 2007). An interesting feature of Indian companies' strategy of mergers and acquisitions, during 2000-07 period, was that more than 42 mergers and acquisitions were only in the US, 19.52 per cent were in the UK and in the Western Europe accounted for 52.19 per cent of the total acquisitions (Bertoni, Elia and Rabbiosi, 2008). Thus, both sectoral and geographical spread lead one to believe that the Indian companies have entered into high value added industries and that too of the developed countries businesses.

Table 4: India's Value of Cross-Border Mergers & Acquisitions 2000-08, (US $ Millions)

Year	Sales	Purchases	Sales-Purchases Gap
2000	1219	910	309
2001	1037	2195	-1158
2002	1698	270	1428
2003	949	1362	-413
2004	1760	863	897
2005	3754	4958	-1204
2006	4740	6586	-1846
2007	5580	30414	-24834
2008	2254	8556	-6302
Total	22991	56114	-33123

Source: UNCTAD (2008).

Table 5: Top 25 Foreign Acquisitions by Indian Firms from 2000 to 2007

Year	Value (US $ million)	Rank	Indian Firm	Target Firm	Country	Industry	Ownership per cent
2007	12100	1	Tata Steel	Corus Steel	UK	Steel	100
2007	6000	2	Hindalco	Novelis	USA	Aluminium	100
2006	1400	3	ONGC Videsh	Petrobas	Brazil	Petroleum	
2002	766.1	4.	ONGC Videsh	Greater Nile Oil Project	Sudan	Petroleum	25
2006	677	5.	Tata Tea and Tata Sons	Glaceau	USA	Health Drinks	30
2004	600	6.	ONGC Videsh	Greater Plutonio Project	Angola	Petroleum	50
2004	600	7.	Opto Circuits India Ltd	Eurocor GmbH	Germany	Medical Equipment	
2006	570.3	8.	Dr. Reddy's	Betapharm Arzneimittel GmbH	Germany	Pharmaceuticals and Healthcare	100
2006	565	9.	Suzlon Energy	Hansen Transmissions	Belgium	Energy	100
2006	522	10.	Kraft Foods Ltd	United biscuits	UK	Food and Beverages	
2000	431.2	11.	Tata Tea	Tetley Group	UK	Food and Beverages	100
2006	324	12.	Ranbaxy Laboratories Ltd	Terapia SA	Romania	Pharmaceuticals and Healthcare	97
2000	323	13.	ONGC Videsh	Sakhalin-I PSA Project	Russia	Petroleum	100
2005	300	14.	Ispat Industries Ltd	Finmetal Holdings	Bulgaria	Steel	
2005	289.2	15.	Videocon International	Thomson SA (CRT business)	Europe, china	Consumer Goods	100
2004	283.7	16.	Tata Steel	NatSteel Asia Pte.	Singapore	Steel	100
2005	254.3	17.	VSNL Ltd	Teleglobe International Holdings Ltd	USA	Telecom	100
2005	234.7	18.	Mtrix Laboratories	Docpharma NV	Belgium	Pharmaceuticals and Healthcare	95.5
2006	220	19.	Tata Coffee	Eight o' Clock Coffee Co.	USA	Food & Beverages	100
2006	210	20.	Susken Communication Tech Ltd	Bornia Hightec	Finland	Information Technology	
2006	209	21.	Ballarpur Industries Ltd	Sabah Forest Industries	Malyasia	Pulp and Paper	77.8
2003	191.2	22.	Reliance Infocomm	Flag Telecom	USA	Telecom	100
2006	185	23.	Seagate Tech Ltd	Evault Inc.	USA	Information	
2001	184.6	24.	Citrix Software India Pvt. Ltd	Sequoa Software	USA	Information Technology	
2005	175	25	Tata Steel Ltd.	Millenium Steel Plc	Thailand	Steel	100

Source: Nayyar (2008).

Table 5 provides information on top twenty five foreign acquisitions by Indian firms during the 2000-07 period. Out of the top 25 foreign acquisitions by Indian firms, six foreign acquisitions belonged to the Tata group of companies and five belonged to the Indian public sector companies. Two of the foreign acquisition of the Tata Group has been in UK and USA each and two were in East Asia (one each in Singapore and Thailand) whereas out of five foreign acquisitions of Indian public sector companies, four belonged to ONGC Videsh and one belonged to VSNL Ltd. It is important to note that the ONGC Videsh targeted petroleum and the foreign acquisitions were in other than the developed countries. However, the VSNL Ltd targeting telecommunication has foreign acquisition in the US.

This table further reveals that out of the top 25 foreign acquisitions by the Indian companies, sixteen were in the developed countries and the nine were spread over to various other parts of the globe. The seven foreign acquisitions by Indian firms were in the area of resources such as petroleum, steel and aluminum. The sectoral distribution of top 25 foreign acquisitions by Indian companies shows that the largest number of foreign acquisitions, that is, five belongs to the consumer goods sector, followed by steel and petroleum (four each), pharmaceutical and information technology (three each), telecommunication (two), and each one foreign acquisition in the sectors such as aluminum, medical equipment, energy and paper.

Furthermore, it also reveals the ownership (or effective control) pattern of these foreign acquisitions. It is important to notice that among the top 25 foreign acquisitions, 100 percent ownership were reported in twelve foreign acquisitions, followed by 97 percent to 50 percent in four foreign acquisitions, and one each foreign acquisition has ownership control of 30 percent and 25 per cent, which were the minority joint ventures. However, the rest of the seven foreign acquisitions have not reported equity participation ownership. From the above discussion, it can be concluded that the foreign acquisitions by the Indian companies were targeting to have a complete control over the ownership of these companies.

4. Indian Outward Foreign Direct Investment Policy Since 1974

The government of India has shown the need of outward foreign investment by Indian companies to ease foreign exchange constraint through exports of Indian capital goods, technology and consultancy services. It was in the year 1974 when Inter-Ministerial Committee on Joint Ventures Abroad was set up within the Ministry of Commerce by the Government of India to scrutinize the proposals made by Indian companies for overseas investment for granting approval. The Inter-Ministerial Committee formulated detailed guidelines for approving Indian companies' proposal for overseas investment. These guidelines were prepared with view to synchronize Indian participation in accordance with the host country regulations. The guidelines encouraged formation of joint ventures with the host economy enterprises and Indian enterprise equity participation should be made in terms of exporting indigenous plant and machinery and also technical know how from the existing Indian joint ventures. Keeping in view the scarcity of foreign exchange, the cash remittances of capital to overseas joint ventures were discouraged but provision was made to allow it in exceptional cases.

This policy has substantially increased Indian investment flows abroad in the second half of the 1970s. By 1980, India emerged as the third largest exporter of industrial OFDI among the developing countries (Lall, 1983). The import substitution regime has enabled Indian companies to learn to adapt technology, capital goods fabrication capability and human resources. This created assets and provided requisite advantages to Indian companies to extend their business abroad, which boosted Indian outward foreign direct investment. The magnitude of Indian investment abroad declined substantially in the early eighties and turnaround in OFDI occurred again towards the mid-eighties. Indian overseas investment largely remained concentrated in the developing countries in the seventies and the eighties. However, some change has been noticed since the mid-eighties, which had witnessed some rise of investment in the advanced industrial countries (Kumar, 1995).

The first phase of India's outward foreign direct investment, which spanned over 1978 to 1992, has been quite restrictive as outward foreign investment was possible only in the form of minority owned joint ventures. The second phase of Indian outward investment started in the year 1992, when an automatic route for Indian investment abroad was adopted and overseas investment up to US $ 2 million were permitted. The restrictions on cash remittances and minority-ownership were removed. The limit on overseas investment through automatic route was increased to US $ 4 million in the year 1995. An important change with regard to the approval of proposals of overseas investment was shifted from the Ministry of Finance to the Reserve Bank of India (RBI). The RBI was vested with approval amount up to US $ 15 million and the approvals beyond US $ 15 million remained under the purview of the Ministry of Finance. In the year 2000 and 2002, the upper limit for automatic overseas investment approval was raised to US$ 50 million and US$ 100 million respectively. It needs worth mentioning here that the second phase of India's overseas investment coincided with worldwide liberalization of rules and regulations related to foreign direct investment. During the period 1992 to 2007, the number of countries introduced changes in regulatory mechanism increased from 43 in 1992 to 92 in 2005 (Table 6). The number of regulatory changes increased during the same period from 77 to 203 and more favorable changes towards overseas investment also increased from 77 to 162. This shows that global economy has framed rules and regulations to attract foreign investment and India has also framed regulations, which permitted Indian companies to try their metal in the international markets. These relaxed regulations in the global economy were also accompanied with much greater access to financial markets.

Table 6: Global Trend of Regulatory Changes Relating to International Investments from 1992-2007

Items	1992	1995	2000	2005	2006	2007
Number of countries that introduced changes	43	63	70	92	91	58
Number of regulatory changes	77	112	150	203	177	98
More favorable changes	77	106	147	162	142	74
Less favorable changes	0	6	3	41	35	24

Source: UNCTAD (2008)

The policy changes with regard to Indian overseas investment since the year 2004 have been described as liberal (Nayyar, 2008). The liberal phase of the policy changes are described in the Table 7. A perusal of table 7 reveals that the automatic route was extended up to 100 percent of the firm's net worth and was increased to 200 per cent of the net worth in the year 2005. The prior approval from RBI was dispensed with and firms were also allowed to obtain the remittances through any authorized foreign exchange dealer. In 2005, banks were permitted to lend money to Indian companies for acquisitions of equity in overseas joint ventures, wholly owned subsidiaries or other overseas companies as strategic investment. In the year 2007, the limit of overseas investment of Indian companies was increased to 300 per cent of net worth in the month of June 2007 and further raised to 400 per cent of the net worth of a company in the month of September 2007. The analysis of the changes related to overseas investment presented in Table 7 clearly brings out the fact that Indian government has eased any difficulty arising on the way of Indian companies undertaking OFDI. The big boost of Indian outbound investment since the year 2000 can essentially be attributed to the policy changes affected by the government of India to encourage Indian companies during the period 2000 to 2008.

Table 7: Selected Changes to Indian Overseas Investment Policy

1.	Indian companies permitted to undertake overseas investments by market purchases of foreign exchange without prior approval of RBI up to 100.0% of their net worth; up from the previous limit of 50.0%.
2.	An Indian company with a satisfactory track record allowed investing up to 100.0% of its net worth within the overall limit of US$ 100.0 mn by way of market purchases for investment in a foreign entity engaged in any bona fide business activity from 2004. The provision restricting overseas investments in the same activity as its core activity at home of the Indian company were removed. Listed Indian companies, residents and mutual funds permitted to invest abroad in companies listed on a recognized stock exchange and in company that has the shareholding of at least 10% in an Indian company listed on a recognized stock exchange in India.
3.	Indian companies in special economic zones permitted to undertake overseas investment up to any amount without the restriction of the US$ 100.0 mn ceiling under the automatic route, provided the funding was done out of the Exchange Earners Foreign Currency Account balances.
4.	The three years profitability condition requirement was removed for Indian companies making overseas investments under the automatic route.
5.	Overseas investments were allowed to be funded up to 100.0% by ADR/GDR proceeds up from the previous ceiling of 50.0%. Further an Indian firm that had exhausted the limit of US$ 100.0 mn in a year could apply to the RBI for a block allocation of foreign exchange subject to such terms and conditions as may be necessary.
6.	Overseas investments were opened up to registered partnership firms and companies that provided professional services. The minimum net worth requirement of Rs. 150 mn for Indian companies engaged in financial sector activities in India was removed for investment abroad in the financial sector.

7.	In 2004, Indian firms were allowed to undertake agricultural activities, which were previously restricted, either directly or through an overseas branch; and are now permitted under the automatic route.
8.	In 2004, the RBI further relaxed the monetary ceiling on Indian companies' investment abroad. Indian companies can now invest up to 100.0% of their net worth without any separate ceiling even if the investment exceeds the US$ 100.0 mn limit. Furthermore, Indian companies can now invest or make acquisitions abroad even in areas unrelated to their business at home.
9.	In 2005, banks were permitted to lend money to Indian companies for acquisition of equity in overseas joint ventures, wholly owned subsidiaries or in other overseas companies as strategic investment.
10.	In 2006, the automatic route of disinvestments was further liberalized. Indian companies are now permitted to disinvest without prior approval of the RBI in select categories. To encourage large and important exporters, proprietary/unregistered partnership firms have been allowed to set up a JV/WOS outside Indian with the prior approval of RBI.
11.	In 2007, the ceiling of investment by Indian entities was revised from 100 per cent of the net worth to 200 per cent of the net worth of the investing company under the automatic route of overseas investment. The limit of 200 per cent of the net worth of the Indian party was enhanced to 300 per cent of the net worth in June 2007 under automatic route (200 per cent in case of revisited partnership firms). In September 2007, this was further enhanced to 400 per cent of the net worth of the Indian party.
12.	The Liberalized Remittance Scheme (LRS) for Resident individuals was further liberalized by enhancing the existing limit of US$ 100.00 per financial year to US$ 200.00 per financial year (April-March) in September 2007.
13.	The limit of portfolio investment by listed Indian companies in the equity of listed foreign companies was raised in September 2007 from 35 per cent to 50 per cent of the net worth of the investing company as on the date of its last audited balance sheet. Furthermore, the requirement of reciprocal 10 per cent shareholding in Indian companies has been dispensed with.
14.	The aggregate ceiling for overseas investment by mutual funds, registered with SEBI, was enhanced from US$ 4 billion to US$ 5 billion in September 2007. This was further raised to US$ 7 billion in April 2008. The existing facility to allow a limited number of qualified Indian mutual funds to invest cumulatively up to US$ 1 billion in overseas Exchange Traded Funds, as may be permitted by the SEBI would continue. The investments would be subject to the terms and conditions and operational guidelines as issued by SEBI.
15.	Registered Trusts and Societies engaged in manufacturing/educational sector have been allowed in June 2008 to make investment in the same sector(s) in a Joint Venture or Wholly Owned Subsidiary outside India, with the prior approval of the Reserve Bank.
16.	Registered Trusts and Societies which have set up hospital(s) in India have been allowed in August 2008 to make investment in the same sector(s) in a JV/WOS outside India, with the prior approval of the Reserve Bank.

Source: RBI (2009); Jha (2006)

5. Emerging Conclusions

Indian firms have long experience to operate and invest in other countries of the world. The overseas investment experience of Indian firms has revealed that they have operated largely in the developing countries possessing technological and other capabilities equal or lower than at home. The recent spurt in expansion of OFDI from India was in sharp contrast of its own earlier OFDI experience as well as from other developing countries. The larger proportion of OFDI from India was in the manufacturing activities. The more than 70 per cent of OFDI from India flowed to industrially advanced countries. The significant proportion (80 per cent) of acquisitions was in the developed countries. The changing pattern of OFDI from India during the recent past can essentially be attributed to numerous underlying factors. Indian economy has shown high degree of dynamism in the process of structural transformation that has provided dividends in terms of OFDI. This achievement is due to concerted efforts made by the Indian government to develop strategic capabilities in the economic agents of production. The innovations system put in place by the Indian development strategy, which itself has undergone unprecedented changes from import substitution to nearly open system, has developed and nurtured some strategic and unique cost reduction capabilities in the economic agents of production (Nagraj, 2006). Indian policy regime, keeping in view the national development priorities, allowed Indian enterprises to invest abroad to achieve economies of scale and remain competitive with companies of other countries. In the early stage of Indian economic development, the Indian enterprises faced restrictive policy regime (to invest abroad). Primarily with a concern to boost domestic investment, they were enabled to acquire adaptive capabilities. During the second phase of Indian economic development, the Indian companies were increasingly encouraged to invest abroad to reduce the deficiency of strategic asset requirements for sustaining domestic development process. The liberalization phase boosted OFDI due to increasing domestic competition and suitable policy changes related to encouraging and enabling Indian firms to expand overseas investment. The liberalization policy environment has succeeded more recently due to the systematic development of capabilities, in the form of technology and management, to compete in the international markets. The national innovation system developed during the last five and a half decades has paid high dividends. This is the foremost lesson that can be learned from the experience of the rapid expansion of Indian OFDI to developed countries.

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