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OUTWARD DIRECT INVESTMENT FROM INDIA: TRENDS, OBJECTIVES AND POLICY PERSPECTIVES

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INTRODUCTION

Robust flow of direct investments, either inward or outward, reflects increasing integration of an economy with the world. While inward FDI portrays the country as an attractive destination for foreign investors, outward FDI showcases the country's appetite and its capability to venture beyond the domestic shores. In both the cases, it augurs well especially for a developing economy like India, which is not only trying to attract investors into the country but also aiming to have a global presence, inter alia, through overseas direct investments.

In the Indian context, exports were hitherto the predominant instrument for Indian enterprises to reach global markets. However, this scenario has undergone a significant change, particularly over the last two decades, with outward investment increasingly becoming one of the key mechanisms of Indian entities to globalize their operations. There is a growing realization among the Indian business community that their future growth would be influenced by the share that they can garner in the world market, not only through exports but also by establishing physical presence overseas, either organically or through acquisition of overseas companies/assets including intangibles like brands and goodwill. While the increasing trend in outward direct investment is particularly evident in the case of India, this phenomenon has been witnessed across a range of developing countries.

As the Indian economy evolved and regulations continued to be liberalized, indigenous companies began to trace their growth trajectory by increasing their share in the global markets through inorganic growth outside India. The number of approved projects for investment abroad also witnessed an increase. India's share in total developing economy FDI outflows remained below 0.5% throughout the 1990s, but increased consistently since 2005, reaching 3.8% in 2011. However, India remains a net FDI recipient, even though the gap between outflows and inflows has been narrowing sharply over the past few years. This study has analysed the trends in India's overseas direct investment – both in terms of geographic dispersion as also in terms of sectoral diversification. To put things in perspective, an assaying of cross border investments at a global level has also been undertaken, preceding the analysis of Indian overseas investments. An attempt has also been made to understand the key motivations driving such investments from India, by means of a structured questionnaire, anecdotal evidence as also secondary research. Further, given EXIM Bank's wide experience in supporting Indian ODI, an analysis has also been undertaken of its experiences in supporting such ventures under its Overseas Investment Finance programme.

OUTWARD DIRECT INVESTMENTS: GLOBAL TRENDS AND PERSPECTIVES

With the emergence of transnational corporations from developing countries, the idea of globalization has assumed a new dimension. The rising quantum of outward direct investment from the developing countries has redefined the concept of competitiveness. In recent years, an important indicator of the internationalisation of developing countries, besides higher exports, has been the rising trend in overseas investments by these countries, commonly referred to as outward direct investments (ODI). This development is poised to play an important role in enhancing the global competitiveness of firms from developing countries that are seeking access to strategic assets, technology, skills, natural resources and markets.

Global ODI has witnessed an upsurge during the last decade with FDI outflows increasing from US$ 748 bn in 2001, to a peak of US$ 2198 bn in 2007, before moderating to US$ 1451 bn in 2010, and then bouncing back in 2011, to register a 16.7% increase to aggregate to US$ 1694 billion. A discernible trend in the world FDI outflows has been the emergence of developing economies as key contributors to these flows. The share of developing economies (including transition economies) in world FDI outflows rose two and a half times over the last decade - from 11% in 2001 to 27% in 2011. In fact, FDI outflows from developing economies during this period quintupled in absolute terms, increasing from US$ 86 billion to US$ 457 billion. The increase has been especially rapid over the last few years with FDI outflows more than trebling from the level of US$ 147 billion in 2005.

The increasing emergence of developing countries in global FDI outflows is reflected in their shares in world outward FDI stocks. While the global outward FDI stock increased from US$ 7.7 trillion in 2001 to US$ 21.2 trillion in 2011, recording a compounded annual growth of 10.6 per cent, outward FDI stock of developing economies shot up from less than US$ 1 trillion to US$ 4.1 trillion, registering a CAGR of 15.1 per cent during the same period. This resulted in the share of developing countries in outward FDI stock increasing from 12.3 per cent in 2001 to 19.4 per cent in 2011. Within developing countries, it was the Asia region which accounted for the bulk of the outward FDI stock – 62.6 per cent in 2011, marginally higher than 62.3 per cent in 2001. On the other hand, the share of transition economies increased significantly, more than doubling from 4.8 per cent to 9.9 per cent during this period.

Among the Asian economies, Hong Kong was the predominant source of outward FDI stock, although its share in Asia declined from 59.5 per cent in 2001 to 40.7 per cent in 2011. As against this, the shares of China and India recorded significant increases, from 5.8 per cent to 14.2 per cent, and from 0.4 per cent to 4.3 per cent, respectively. Whereas China's overseas investment thrust has hitherto been more top-down, India's approach has been more decentralized and calibrated, a reflection of the differing policy approach, and the overall development strategies of the two countries. Though outward FDI figures show that India has been lagging behind China, many Indian companies have been involved in outward ventures far longer than their Chinese counterparts and have, over time, developed the requisite knowledge and acumen to deal with the complex issues relating to the management of cross-border alliances.

The rising trend of ODI from some developing and transition economies reflects the increasing competitiveness of many firms in these economies. The surge in such overseas investments has also partly been fuelled by soaring export revenues from manufactured products and natural resources in some countries, which have contributed to building up the financial strength needed to engage in overseas investment. While earlier episodes of outward expansion from developing countries involved mainly the newly industrializing economies of Asia and some Latin American and West Asian economies, a broad spectrum of developing countries such as Argentina, Chile, China, India, Malaysia, Nigeria, South Africa and Venezuela, as well as several lower income economies, are now expanding their reach. Going forward, such a trend is not only likely to continue but also get increasingly stronger.

OUTWARD DIRECT INVESTMENT: THE INDIAN EXPERIENCE

Outbound investments from India have undergone a considerable change not only in terms of magnitude but also in terms of geographical spread and sectoral composition. An analysis of the trends in direct investments over the last decade reveals that while investment flows, both inward and outward, were rather muted during the early part of the decade, they gained increased momentum during the latter half. While FDI inflows recorded a CAGR of 28.2%, increasing from US$ 3.9 bn in 2001-02 to US$ 46.6 bn in 2011-12, FDI outflows registered a higher growth, increasing at a compounded annual rate of 40.9% – from US$ 1.0 bn to US$ 30.9 bn during this period. Thus, the gap between FDI and ODI flows, which was quite substantial during the first half of the decade, narrowed down significantly, especially after 2006-07.

Regional diffusion of India's outbound investment has witnessed a perceptible shift – India's ODI in the early part of 2000s was largely directed to traditional countries which were generally considered as mature markets. As against this, during the mid-2000 period, resource rich countries like Australia, Sudan and UAE emerged as India's leading investment destinations. However, by 2011-12 a significant amount of ODI was channelled into countries providing tax benefits like Mauritius, Singapore, British Virgin Islands and the Netherlands. While in themselves, these countries are neither large enough nor do they have significant domestic markets to warrant the amount of investments witnessed over the years by Indian entities, they do provide considerable amount of tax benefits which make them attractive destinations for onward routing of investments.

The RBI data on overseas direct investments captures only the actual flow of funds rather than the ultimate destination of investment and does not accurately reflect the extent of the linkages between India and the rest of the world in terms of actual outward investments. To overcome this limitation and to get a more meaningful understanding of the trends in Indian overseas investments, this study has drawn upon the data collated by fDi Markets (Financial Times

Group), which monitors investment projects and capital investment to track and profile of companies investing overseas. As per this data, during the period January 2003 to August 2012, in terms of cumulative number of overseas investment projects, USA, UK, and UAE emerged as the top destinations for Indian investments, together accounting for more than one third of the total number of such projects (which amounted to 2745 during this period). However, in terms of actual capital expenditure (capex), Indonesia was the largest destination with total capex aggregating to US$ 14.4 bn (share of 6.4 per cent). Other significant destinations in terms of actual capex resulting out of Indian overseas investments during this period included UAE (US$ 14.3 bn), China (US$ 12.1 bn), Iran (US$ 11.9 bn), Nigeria (US$ 11.1 bn) and Oman (US$ 9.9 bn).

Analysis of sectoral dispersion based on RBI data, reveals that it has primarily been the manufacturing sector that has been the favoured choice, across most of the last decade, although its significance has gradually been waning. Thus, while the share of manufacturing sector in India's ODI was 59.8 per cent in 2003-04, its share declined to 40.3 per cent by 2009-10 and further to 31.5 per cent in 2011-12. The other major broad sectors attracting Indian overseas investment were finance, insurance, real estate and business services; and wholesale, retail trade, restaurants and hotels. While the former group's share increased from 12.6 per cent in 2003-04 to 29.2 per cent in 2009-10 before tapering off to 19.7 per cent in 2011-12, the latter's share has more or less remained stable hovering around the 9-11 per cent range during this period, but for the year 2006-07, when its share dropped to below 4 per cent.

Within manufacturing, manufacture of refined petroleum products were the largest category attracting cumulative investments of US$ 10.2 bn during the 2001-02 to 2010-11 period, thereby accounting for a share of 26.7 per cent of all overseas approved investments in the manufacturing sector during this period. Other major segments of manufacturing sector which drew interest of Indian firms included pharmaceuticals, medicinal chemical and botanical products, with cumulative ODI during the 2001-02 to 2010-11 period aggregating to US$ 4.0 bn (10.4 per cent share); motor vehicles, trailers and semi trailers (US$ 4.0 bn; 10.4 per cent); special purpose machinery (US$ 3.7 bn; 9.7 per cent); fabricated metal products, except machinery and equipment (US$ 3.3 bn; 8.5 per cent); chemical and chemical products (US$ 3.2 bn; 8.4 per cent); and electrical equipment (US$ 2.7 bn; 7.0 per cent). While the sectoral dispersion has remained fairly stable during the period under review, the notable change has been the emergence of fabricated metal products (except machinery and equipment) and special purpose machinery among the major segments of Indian overseas investment during the latter part of the decade.

DRIVERS OF INDIAN OUTBOUND INVESTMENTS: AN EMPIRICAL EVIDENCE

India's expedition abroad has been driven by a number of factors. Apart from regulatory changes witnessed in recent times, expanding the existing market and increasing appetite to take risk in the process were important factors in the decision of Indian firms to venture abroad. There is also an element of value addition through enhanced technical knowhow which has been driving Indian companies to go beyond the domestic shores for investment. These results have been ascertained based on primary research (by way of a structured questionnaire), anecdotal evidence as also secondary research.

The results indicate varied objectives and motivations of Indian firms in their outward investment efforts, ranging from low factor cost advantages in the host country (as in natural resources) and saturation of the Indian market, to the need to enhance their export-competitiveness in third country markets, and to exploit the domestic market potential in other countries. However, a clear outcome that emerges from the survey is that the overseas investment activities of Indian companies are motivated essentially by a set of firm-specific objectives. It can be just a market entry strategy or market entry plus strategy (e.g. accessing strategic asset) implying a multi-purpose intention of making an overseas investment.

While the first wave of Indian overseas direct investments in the pre-liberalization period was made by a handful of firms and concentrated largely in Asian and African developing countries, the second wave of Indian ODI, in terms of real investments (and not just flow of funds, captured by RBI data) – especially since 2000 – has been in developed countries. An analysis of such investments undertaken during the last decade or so, based on both primary and secondary research has revealed that the key motive of Indian firms' overseas investment has been essentially to tap the host country markets, i.e. such investments have been market-seeking. However, given that Indian overseas investments have ranged across a wide array of sectors and geographies, it would be naive to pin-point market-seeking as the predominant objective. Our analysis indicates that the motives of investments are largely firm-specific and could range from acquisition of brands and technology to securing resources. Empirical evidence suggests that while the former set of reasons have been the predominant motivations of Indian firms investing in developed country markets, the latter reason has been the driver of outward investment in developing country markets, especially those in Africa and some countries of Asia.

The analysis further reveals that the experience of Indian firms in their overseas expedition has by and large been satisfactory with most of the metrics revealing a favourable response. Although it may be rather rudimentary to conclude with full conviction from the survey data, it does indicate a certain amount of positivity in terms of the success rates of Indian firms' overseas expeditions. Further research remains to be done on the post-investment success rates of Indian firms' overseas acquisitions. In this context, given EXIM Bank's experience in supporting overseas investment by Indian corporates, an analysis of investments supported through Bank's Overseas Investment Finance (OIF) programme has also been undertaken as a part of this study.

EXIM Bank'S EXPERIENCE IN SUPPORTING INDIAN ODI

An empirical analysis of the overseas investments supported by EXIM Bank reveals that most of the assisted deals have been primarily guided my market rationality. It was observed that the strategic rationale for an acquisition that creates value typically conforms to at least one of these motives, viz. creating market access for products; acquiring skills or technologies more quickly or at lower cost than they could be built in-house; and picking winners early and helping them develop their businesses by improving their performance. Clarity in the strategic motive of overseas expedition by Indian companies has a major role in EXIM Bank's loan appraisal process as it gives clear picture of corporate strategy and requirement of funding. Based on the Bank's experience, forward integration has been the primary strategic motive behind Indian corporates' overseas ventures. This is reflected in the fact that around two-third of EXIM Bank's OIF portfolio had market seeking as the main reason for availing of the Bank's debt. Backward integration was the major reason for about one-fourth of the corporates supported by EXIM Bank under its OIF programme. These firms were largely from capital intensive sectors such as steel, oil and gas exploration, and power generation. Technology upgradation was a strategic motive for about 15% of corporates supported by EXIM Bank for outward investments.

An interesting point emerges by analysing EXIM Bank supported ODI from a region-sector perspective – i.e. the top sectors of EXIM Bank supported ODI bear a strong correlation to the major products exported by India to that region. For example, one of India's key exports to LAC is pharmaceuticals – a sector which incidentally also tops in terms of EXIM Bank support for ODI to that region. Similarly in the case of Europe, textiles and garments is the major sector supported by EXIM Bank for ODI; and Europe is the largest market for India's exports of textiles and readymade garments. Thus, it can be deduced that market-seeking has been one of the key motives for overseas acquisition of companies supported by EXIM Bank – an inference that has also been brought out by the questionnaire based survey.

Under EXIM Bank OIF programme, the purpose of the loan is of paramount importance while taking a credit decision since it is directly related to debt servicing. The Bank's experience has shown that acquisition of overseas companies has been the primary form of EXIM Bank supported overseas investment, accounting for nearly half of the Bank's OIF portfolio in value terms. Support for greenfield facility or brownfield expansion comes next with a one-fourth share.

The SPV structure is among the most prominent forms in which overseas investments are being undertaken by Indian firms. This helps them achieve tax effective corporate structures. SPV in most of the cases is created for the Holding of the final operating company. Interestingly, of the firms supported under EXIM Bank's OIF programme for acquisition of overseas company, around two third of the Indian corporates preferred to have SPV in non operating country – that is SPV had just existed for the acquisition as a holding company of final operating companies. Apart from acquisitions in USA, other investments in Europe or Asia are mostly routed through third country which has tax efficient structures.

The most preferred non operating SPV location in EXIM Bank's OIF portfolio was The Netherlands followed by Singapore and Mauritius. Preferences of location of SPV by corporate depends upon the type of business, final location of business, and laws of the governing country. Countries like Cayman Islands, Virgin Islands, Cyprus have also been preferred by corporates supported by EXIM Bank to have their holding company providing them a tax effective company structure.

INDIAN OUTWARD INVESTMENT: SOME POLICY PERSPECTIVES

Enhancing Indian Investments Abroad: Select Policy Options

The study felt that there is a need for having in place a set of policy guidelines and framework which could create an enabling environment for Indian enterprises to increasingly undertake direct investment overseas. This policy framework could take cognizance of what has been the experience of other countries (such as China), and suitably adapt them in the Indian context. Essentially, the policy regime relating to outward investments needs to encompass (1) incentivizing direct investments by Indian enterprises; (2) streamlining administrative procedures (including decentralization of authority to local levels of government); (3) easing capital controls; (4) providing information and guidance on investment opportunities; (5) establishing systems for reducing political and other non-commercial investment risks; and (6) expanding bilateral investment agreements for investment protection.

Creation of an Institutional Mechanism / Agency for Promotion of ODI

While some of the aforementioned measures are already in place, they need to be crystallised and brought under one umbrella. This is where establishing a specific institutional mechanism for promoting overseas investments by Indian enterprises merits a special attention. A separate division within the Ministry of Finance could be established – the Overseas Investment Promotion Council (OIPC) – for fast-tracking endeavours of Indian corporate to venture abroad. OIPC could develop a series of guidance documents, highlight investment climates across potential countries, provide information on investment and trade-related laws and regulations, taxation policies, market conditions and industry opportunities for Indian companies, similar to what MOFCOM does for Chinese enterprises. In addition, OIPC could periodically undertake post-facto, survey based assessment on outlining the common problems encountered in overseas investments in those countries and regions. These information and advisory services could reduce research costs and investment risks for Indian companies. The guidance documents could also address the environmental and social dimensions of investment. OIPC should become the fulcrum of the policy mechanism with respect to cross border investments from India and should be fashioned as a one-stop shop for all policy guidance and issues related to outbound investments from India on an exclusive and proactive basis.

Earmark Separate Funds out of Foreign Exchange Reserves for Promoting Cross Border Investments

Typically, while availability of finance, especially foreign currency, for funding outward investment may not be the real issue, the problem arises in terms of the cost of getting such finance. Most Indian enterprises, by and large, cannot take advantage of the availability of cheap finance from abroad. The rationale for raising capital (either as equity or debt) from abroad is the desire on the part of companies to tap low cost funds and broaden the shareholder's base. This also serves as a launching pad for future overseas operations such as opening of branches, acquiring assets abroad as well as expanding the business operations abroad. There has been a marked improvement in volumes, pricing and demand in the international bond markets but access to bond markets is largely restricted to investment-grade companies, which primarily include several large public sector companies and few top-rated companies in the private sector. Given this, a certain amount of funds out of the foreign exchange reserves can be set aside for exclusively promoting outbound investments from India. This would entail setting in place an appropriate institutional mechanism for the management of this fund. A Special Funding Mechanism could be created with an initial corpus of US$ 10 bn allocated out of the country's foreign exchange reserve, at an appropriate pre-fixed rate.

Alternatively, the corpus of the Special Funding Mechanism could be created out of the Central Government budget, similar to the "Special Funds for Foreign Economic and Technology Cooperation" earmarked for the Chinese companies by its government. The scope of these funds, inter alia, includes supporting overseas investment by Chinese enterprises through both hard as well as soft interventions. The fund provides direct subsidies as also interest subvention on medium and long-term loans from domestic banks incurred for projects such as overseas investment, cooperation, and project contracting. In the Indian context, the Fund could complement the endeavours of Indian companies planning cross border investments through a matching grant support for covering soft expenses including legal, technical and commercial consultation fees, fees for undertaking a techno-economic feasibility study (in case of greenfield projects or brownfield expansions), translation fees for regulatory documentations and other materials, etc. Low cost financing would make more investment proposals viable, and encourage more Indian enterprises to undertake overseas expeditions in order to have a global footprint. This would be of particular relevance to small and mid size companies, for whom competitive loan pricing is a major handicap in their expansion plans and for whom, raising relatively low cost foreign currency funds from the international markets may not be a feasible option.

Overcoming Statistical Discrepancy by Capturing Data on Actual Investment Destination

The RBI data on overseas direct investments only captures the actual flow of funds rather than the ultimate destination of investments. The main limitation of the RBI data on JV/WOS is that it captures only the immediate recipient nations of the investment, which, quite often, are merely intermediaries that do not have any operations. These investments follow complex and opaque structures and are mostly routed through multiple layers of shell companies or SPVs, primarily to leverage upon the tax treaties between different set of countries, making it difficult to identify the actual destination of investments. Thus, data captured by RBI on overseas investment could lead to a distorted picture of the extent of the linkages between India and the rest of the world in terms of actual outward investments. Getting a more meaningful understanding on the trends in Indian overseas investments would entail RBI tracking data on cross-border investments at a granular level and making an endeavour to monitor end-destination of such investments. In this context, RBI should make it mandatory for firms to report not only the first but also the final destination of their overseas investments. Here again, the proposed OIPC could play a significant role, akin to the monitoring, supervision and feedback mechanisms within the Chinese system, and their implementation in practice, and could endeavour to supplement the information Indian companies submit in the registration and approval process through RBI, by undertaking a survey based approach to collection and collation of data.

Align Bilateral Investment Treaties from the perspective of both Inward and Outward FDI

The increasing number of Bilateral Investment Promotion and Protection Agreements (BIPAs) is a result of recognition of the positive role that foreign investment can play in economic development. Typically, BIPAs try to promote foreign investment through protection, say, by assurance to foreign investors that foreign investment that has been admitted in accordance with the host country's policies, laws and regulations is guaranteed with fair and equitable treatment, full and constant legal security and dispute resolution through international mechanism including the disputes between the investor and the State. As of December 2013, India had signed BIPAs with 83 countries out of which 72 BIPAs had already come into force and the remaining agreements were in the process of being enforced. However, most of these BIPAs were drawn up ostensibly keeping the objective of attracting inward investment rather than safeguarding interests of Indian outbound investments. While Indian BIPA programme was designed more to attract inward FDI than protect outward FDI, it is rather intriguing that India has signed BIPAs with all but 4 (USA, Singapore in addition to the Channel Islands and the British Virgin Islands) of the top 15 destinations for outward Indian FDI. Any good investment treaty programme for an emerging economy like India should not only be designed for attracting inward FDI but should also account for outward FDI from that economy. India's BIPA programme, at least on paper, appears to meet this standard since India has concluded investment treaties with several top destinations for outward FDI from India. Another important factor with respect to the country's BIPA programme is the role of the industry in shaping such treaties. There are good reasons for taking into account the perspective of the actual beneficiary of the BIPA programme, viz. the Indian business investor. With growing outward FDI by Indian firms, a systemic analysis of the benefits of investment treaties for protection of outward Indian FDI by all stakeholders involved would certainly be of immense importance. This is where the role of the proposed Overseas Investment Promotion Council gains further merit - this institutional mechanism would provide an ideal platform for the industry for such constructive forums.

SUM UP

This study has analysed the varied pattern of India's overseas investments – in terms of sectors and geographies – and has made an attempt to highlight the motives underlying those investments by Indian enterprises as also attempted to briefly capture the experience of these firms in their overseas expeditions. The increasing trend in overseas direct investments from India witnessed in the recent past is likely to be further bolstered, going forward, with greater concentration on strategic resources in general, and the manufacturing sector in particular. Given the current trend, the destinations will largely depict tax-easing nations, though actual investments remain elsewhere, unless selective measures are undertaken to plug such regulatory gaps.

1. INTRODUCTION

As the Indian economy evolved and regulations continued to be liberalized, indigenous companies began to trace their growth trajectory by increasing their share in the global markets through inorganic growth outside India. Though even after 20 years of the landmark policy announcement, India may not have acquired absolute technological know-how to cause a large scale shift in the production function like developed countries, but Indian firms have significantly improved from their initial status of being a mere adaptor of foreign technology in many of the knowledge-based industries like pharmaceuticals, information technology, telecommunications, software and automobiles. Corporates in India are increasingly realising that they need to move beyond exports and establish a physical presence overseas. The drive to have a footprint in the overseas markets gets further strengthened by the increasing possibilities to access to newer markets, while enhancing profitability, and at the same time being able to create a competitive edge.

Foreign Direct Investments (FDI) in any form and in either direction – inwards or outwards – reflects the growing prowess of an economy. While an inward oriented FDI policy setup positions a country as an attractive destination for foreign investors, an outward directed FDI policy framework mirrors the country's appetite and its capability to invest in discerning markets overseas. For an emerging economy like India, which is not only trying to lure investors into the country but has also witnessed – and increasingly so in the recent past – emergence of Indian firms with global mindset and presence, both types of policy framework hold significant relevance. Under the current context, outward direct investment (ODI) has assumed considerable interest. ODI, like inward FDI, is generally undertaken in two forms – new equity flows in the form of mergers and acquisitions (M&A) of existing local enterprises or in the form of greenfield investments (i.e. the establishment of new production facilities).

Although, the increased pace of globalisation, especially during the last decade, has opened up enormous opportunities for firms with a global mindset, vision and capabilities, it has also resulted in increased cross border risks and reduced immunity to shocks outside home country. This was amply evident from the recent global financial crisis, as almost no country in the world remained unscathed by the impact of it, though the degree and intensity of the impact varied across regions and countries. The growing interdependence of economies worldwide has been initiated over a period of time by the liberalization of trade and investment policies across countries. India has been no exception to this gradual openness of the economy. Predictably, the nature of economic relations between India and other countries has evolved over the last decade or so, giving way for a greater cooperation in trade and investments.

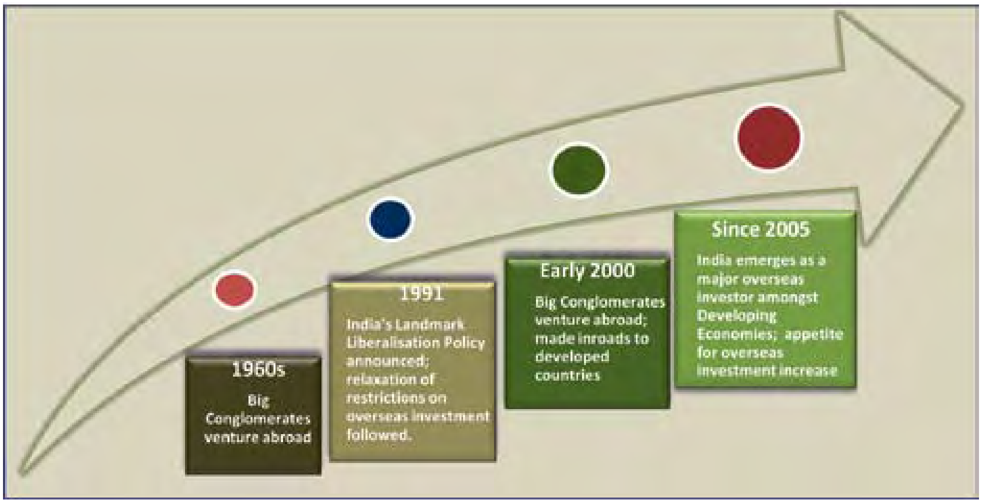
Globalization and non-discriminatory multilateral trade and investment have opened new frontiers for Indian corporate to realize their expansion plans. Earlier, the investment policy mechanism was inclined primarily in favour of attracting inward investment flows, viz. FDI, portfolio investments, joint ventures and collaborations to tap the growing Indian market, and also technology transfers for enhancing competitiveness of Indian firms. This structure was typical for any country which was at the developmental stage where India was then, when exports were the predominant instrument for venturing beyond the domestic shores. However, today, the scenario has changed. There is a growing realization that the future growth of Indian companies will be influenced by the share that they can garner in the world market, not only by producing in home country and exporting, but also by acquiring overseas assets – including intangibles like brands and goodwill – to establish overseas presence and to enhance their competitive strength.

Evolving Outward Direct Investment from India

Indian companies have traditionally focussed on organic growth. Even when the strategy had been to grow inorganically, it most times involved domestic mergers and acquisitions (M&As). Though emergence of Indian transnational companies started in the 1960s when huge Indian conglomerates ventured outside, this was only far and few. Such instances include the establishment of a textile factory by the Birla group at Addis Ababa, Ethiopia, in 1960 and setting up of an assembly plant for sewing machines by the Shriram group at Ratmalana, Sri Lanka, in 1962. These were perhaps one of the earliest south-south investment projects. It is interesting to note that policy makers prior to 1990s were in favour of promoting ODI amongst developing countries under the overall objective of enhancing south-south trade development. This trend has undergone a gradual change today, wherein the policy orientation is now more or less region/country neutral. This has enabled more and more Indian firms to set a foothold in international markets across continents, through acquisitions and investments in businesses, and in the process leading to their greater acceptance as global market players. With the gradual opening up of the Indian economy and the evolving regulatory regime which fostered economic liberalization, more and more domestic companies began viewing the global market as a huge opportunity to improve their growth prospects and reach a higher growth trajectory, inter alia, through inorganic growth overseas.

From the infant steps taken in the 1960's when very few Indian firms ventured abroad, to the current propensity of Indian companies to increasingly look beyond its borders, the journey has been one driven by several internal and external factors. While the first wave of Indian ODI pre-liberalization was made by a handful of firms and was concentrated largely in Asian and African developing countries, the second wave of Indian ODI post-liberalization – especially since 2000 – has been in developed countries, primarily in the form of M&As, as opposed to the earlier strategy of greenfield establishments with participation by many Indian firms. The primary exogenous factor that led to this trend was the advent of economic liberalization, privatisation and globalisation policy of the Government unleashed in 1991. This was in fact among the first steps that led to Indian companies consciously developing a global mindset and provided the necessary impetus to those looking to venture outside the domestic shores. The economic reforms process in India was further complemented by the increasing globalization of the world economy during the 1990s. The implementation of policy liberalization measures with respect to trade, investment and technology at various levels viz. multilateral, regional and individual country level rendered the world economy more open and economically interdependent.

Exhibit 1: Emerging Global Footprint of Indian Enterprises



Source: EXIM Bank Research

There was a surge in outward investment from 2005 onwards when the number of approved projects witnessed a sharp rise. This resulted in India's share in total developing economy FDI outflows increasing continuously since 2005, reaching nearly 4.6 per cent in 2010 as compared to less than 0.5 per cent throughout the 1990s. Nonetheless, India still remains a net FDI recipient, although the gap between FDI outflows and inflows has been narrowing down rapidly, particularly over the past few years.

Policy Amendments: Facilitating Overseas Investments from India

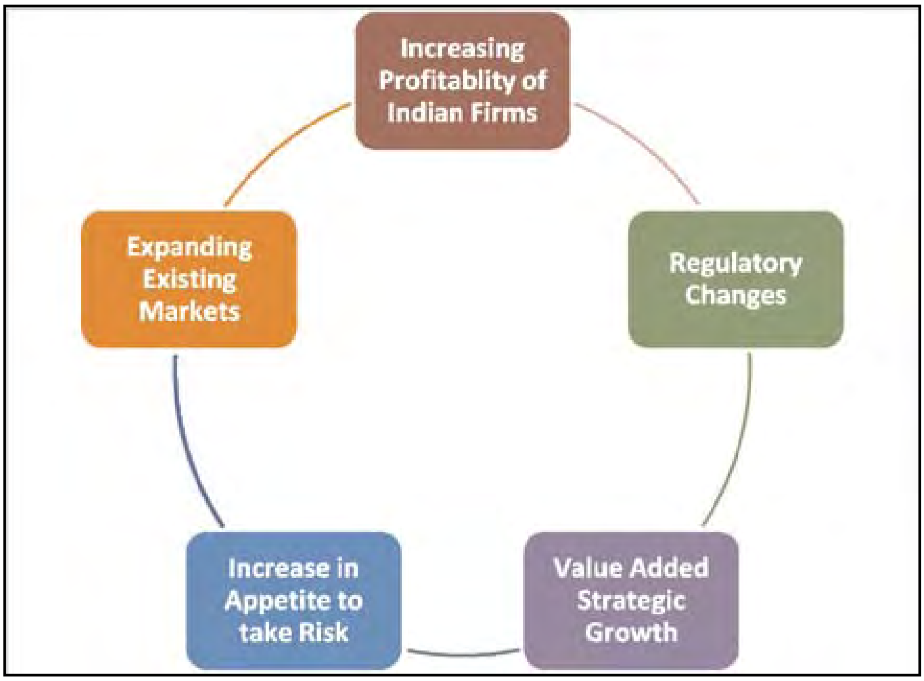
India began its journey on the path of economic development and liberalisation in 1991. This landmark in Indian economy not only widened avenues for improved trade relationships with other global economies but also paved the way for Indian companies to actively explore overseas investment opportunities. The boom in information technology during the late 1990's and early part of this century, aided by skilled English speaking workforce, further helped India scale up its cross border business. Regulatory changes which created an enabling environment for increased private sector participation, was the primary factor that provided the initial momentum and incentives for many Indian companies to look overseas. This implied continued support from the Government and a continuing liberal stand taken by the Reserve Bank of India (RBI). Changes in amendments to RBI policies and guidelines raised permissible investment limits and streamlined the processes. Introduction of Foreign Exchange Management Act (FEMA) in 2000 and dismantling the Foreign Exchange Regulation Act (FERA) have been watershed policy decisions. The introduction of FEMA in 2000 brought about significant policy liberalisation. The limit for investment up to US$ 50 million, which was earlier available in a block of three years, was made available annually without any profitability condition. Companies were allowed to invest 100 per cent of the proceeds of their American Depository Receipts (ADR) / Global Depository Receipts (GDR) issues for acquisitions of foreign companies and direct investments in joint ventures (JVs) and wholly owned subsidiaries (WOS).

Automatic route was further liberalised in March 2002 wherein Indian parties investing in JVs/WOSs outside India were permitted to invest an amount not exceeding US$ 100 million as against the earlier limit of US$ 50 million in a financial year. With a view to enabling Indian corporate to become global players by facilitating their overseas direct investment, end-use for External Commercial Borrowings (ECB) was enlarged to include overseas direct investment in JVs/WOSs in February 2004. This was designed to facilitate corporates to undertake fresh investment or expansion of existing JV/WOS including mergers and acquisitions abroad by harnessing resources at globally competitive rates.

In order to promote Indian investment abroad and to enable Indian companies to reap the benefits of globalisation, 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 for 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 registered partnership firms). In September 2007, this was further enhanced to 400 per cent of the net worth of the Indian party. As a simplification of the procedure, share certificates or any other document as an evidence of investment in the foreign entity by an Indian party, which had acquired foreign security, was not required to be submitted to RBI. The share certificates or any other document as evidence of investment where share certificates are not issued are now required to be submitted to and retained by the designated Authorised Dealer category – I bank, which would be required to monitor the receipt of such documents to ensure bona fides of the documents so received. The Indian venture capital funds registered with the SEBI, is permitted to invest in equity and equity-linked instruments of offshore venture capital undertakings, subject to an overall limit of US$ 500 million and compliance with the SEBI regulations issued in this regard.

The Liberalised Remittance Scheme for Resident Individuals was further liberalised by enhancing the existing limit of US$ 100,000 per financial year to US$ 200,000 per financial year (April-March) in September 2007. The limit for 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 was dispensed with. 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

Exhibit 2: Drivers for Outward Direct Investments (ODI)



Source: EXIM Bank Research

April 2008. Registered Trusts and Societies engaged in manufacturing/ educational sector were 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 RBI. 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 RBI.

While favourable and conducive Government policies have played a facilitating role in the initial move towards overseas expansions, Indian companies have more recently taken relatively bolder and strategic initiatives to facilitate their overseas growth.

For many Indian enterprises, ODI in the form of overseas mergers and acquisitions provides a means of acquiring technology, brand and other competitive advantages overseas to survive in the global market place. The liberalization of ODI policy of India during 1990s may have provided the ultimate impetus for Indian firms to use ODI as a means of competitive strength and survival in the globalizing world economy. Increased profitability of Indian companies is also a major reason for them to venture abroad. The boom witnessed in the Indian economy over the last decade has given more reason to cheer for the Indian firms, many of whom are now cash rich than ever before and are increasingly looking abroad. Simultaneously, many firms were underleveraged, and therefore had a higher amount of cash, which was utilized to fund their acquisitions and expansions abroad.

The drive for outbound acquisitions among Indian companies continues to move northward as they seek to move up the value chain. Growing competition has also pushed Indian companies to look at new markets and one of the most convenient options to have emerged is through strategic partnerships and alliances with overseas companies. More recently, Indian firms are viewing global expansion in the framework of strategic goals with an eye on improved profit margins and better market reach. They are now aiming at acquisitions that will enhance the value of their business. Accordingly, acquisition strategies are now being driven by plans to acquire specific intellectual property rights and research and manufacturing facilities. This is especially true for knowledge driven sectors like pharmaceuticals – firms in this sector seem to have built on their capabilities through the decades when India had a weak intellectual property rights regime, which made it easier for them to re-engineer drugs made by their western counterpart before their patents expired in the US or Europe. However, before expanding abroad in the 2000s, these firms had to position themselves in the new competitive market setting, by reengineering production methods, upgrading quality, developing new suppliers, and improving productivity.

Indian firms, including those led by first generation entrepreneurs, are willing to deliver higher levels of shareholder value and gain a competitive advantage in the global marketplace. Home market limitations in terms of scale and resources have encouraged them to take greater risks. Firms today are also learning from each other and thereby taking calculated risks while moving abroad. They have also grown an appetite for taking risks, having known the fruits of such successes.

Another very important aspect that promotes Indian firms going abroad has been accessing markets that would otherwise remain inaccessible. Many firms in the process end up undertaking the M&A route. The Tata Coffee buying US based 8'O Clock Coffee brand in the early part of this century, and Tata's foray into Europe by acquiring Jaguar and Land Rover couple of years back, are signs of India's exemplary intent to go abroad. Moves like these not only give a firm the advantage of moving into newer markets, enhancing the scale of operation, sharing technology know-how, but also help in augmenting the position of the brand in the international arena.

SUM UP

India's economic and business bandwidth is poised to grow. Though even after two decades of the landmark policy announcement, India may not have acquired absolute technological knowhow to cause a large scale shift in the production function like developed countries, but Indian firms have significantly improved from their initial status of being mere adaptors of foreign technology in many of the knowledge-based industries like pharmaceuticals, information-technology, telecommunications, software and automobiles. One manifestation of this has been the increasing trends of Indian companies venturing out in the international marketplace and expanding their physical presence through direct investment overseas.

This study makes an attempt to map the experiences of Indian companies in their expeditions abroad. The study first examines the overall trend of outward direct investments from India, bringing home the point that such ODI has been increasingly moving in the northward direction with India's share in ODI among developing economies, especially developing Asia witnessing a consistent rise. This section also covers region/country specific experiences of Indian firms in their overseas ventures and reasons thereof. The paper then builds upon the feedback received from a cross-section of the industry in the form of primary research undertaken through a structured questionnaire, as well as covering the experience of EXIM Bank supported companies in their venture abroad. The last section focuses on the various issues and prospects of growth of outward foreign direct investments from India.

2. OUTWARD DIRECT INVESTMENTS: RECENT TRENDS AND PERSPECTIVES

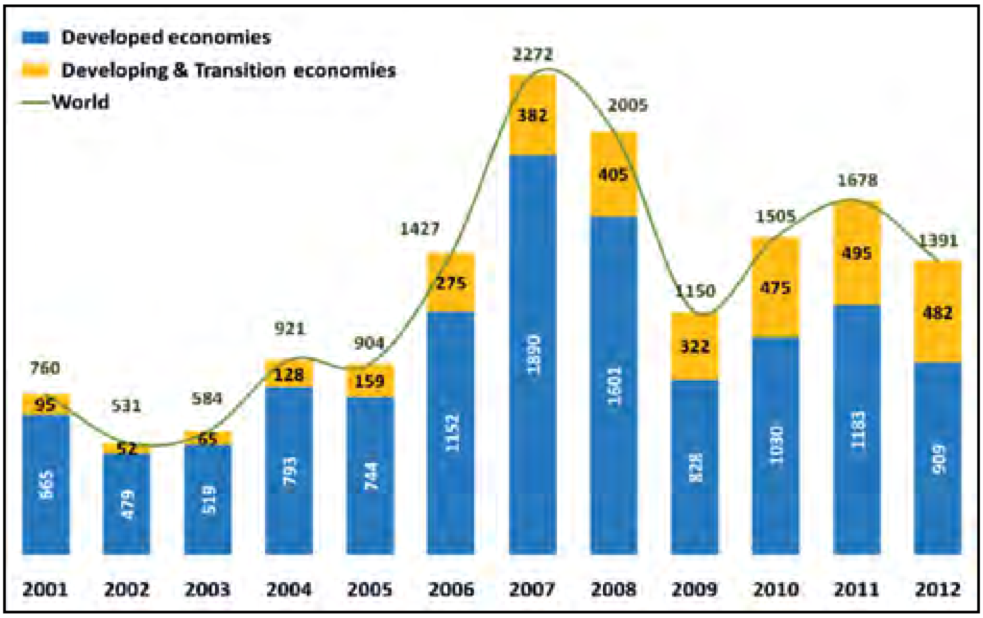
In recent years, an important indicator of the internationalisation of developing countries, besides higher exports, has been the rising trend in ODI. This development is playing an important role in enhancing the global competitiveness of firms from developing countries that are seeking access to strategic assets, technology, skills, natural resources and markets. A palpable trend in the world FDI outflows has been the emergence of developing economies as key contributors to these flows. The share of these in world FDI outflows rose two and a half times over the last decade. This rising trend of ODI from some developing and transition economies reflects the increasing competitiveness of many firms in these economies. The surge in such overseas investments has also partly been fuelled by soaring export revenues from manufactured products and natural resources in some countries, which have contributed to building up the financial strength needed to engage in overseas investment. While earlier episodes of outward expansion from developing countries involved mainly the newly industrializing economies of Asia and some Latin American and West Asian economies, a broad spectrum of developing countries such as Argentina, Chile, China, India, Malaysia, Nigeria, South Africa and Venezuela, as well as several lower income economies, are now expanding their reach. Going forward, such a trend is not only likely to continue but also would get increasingly stronger.

Global Outward FDI: Emergence of Developing Economies

With the emergence of transnational corporations from developing countries, the idea of globalization has assumed a new dimension. The rising quantum of outward direct investment (ODI) from the developing countries has redefined the concept of competitiveness. In recent years, an important indicator of the internationalisation of developing countries, besides higher exports, has been the rising trend in overseas investments by these countries, commonly referred to as outward direct investments. This development is poised to play an important role in enhancing the global competitiveness of firms from developing countries by providing access to strategic assets, technology, skills, natural resources and markets.

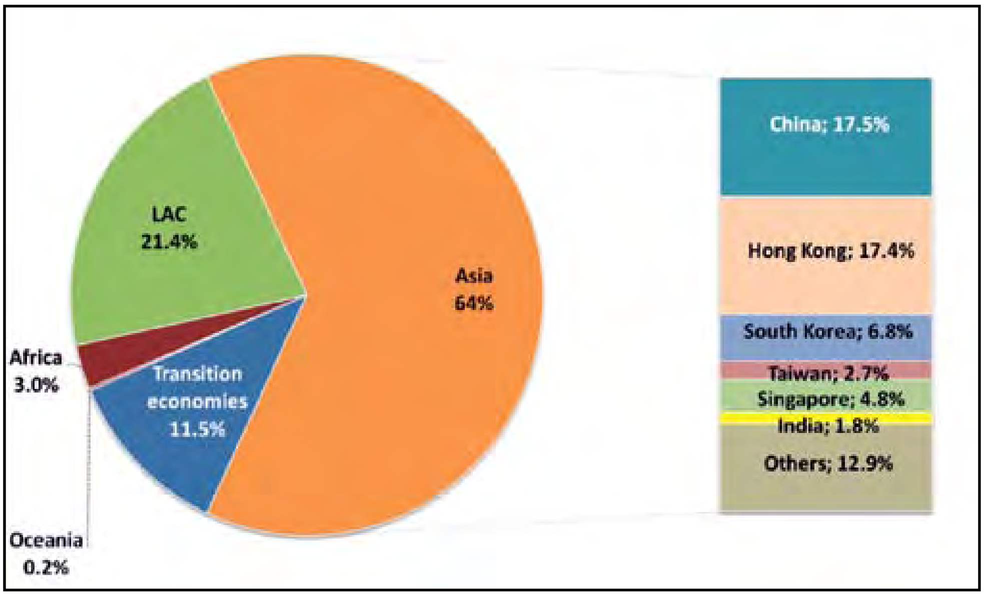
Outward investment offers an additional avenue for developing countries to link up to global markets and production systems. Investment scenario across the globe has been witnessing a sea change when compared to about a decade back with the increasing assertiveness being displayed by emerging markets in the globalization process. The emergence of transnational corporations from developing and transition economies is one form of manifestation of this assertiveness, which simultaneously imparts greater momentum to South-South cooperation. New investment corridors are opening up among the regions of Latin America, Africa and Asia as part of this dynamic activity, with positive prospects for advancing development. Select countries and continents like Africa are playing a pivotal role in the changing dynamics of the overall FDI flows in the world. As the pace of industrialization gathers further momentum in countries in Asia, firms in these countries have become even more ready to embrace the fruits of FDI (both inward and outward). Latin American countries are also establishing themselves globally. Developing countries like India are reaching out to various countries across the globe including developed nations.

Exhibit - 3: Trends in World ODI flows: Developed vs. Developing Economies (US$ bn)



Source : World Investment Report, 2013; EXIM Bank Research

Exhibit - 4: Developing Economies: Distribution of ODI Flows in 2012 (Total : US$ 482 bn)

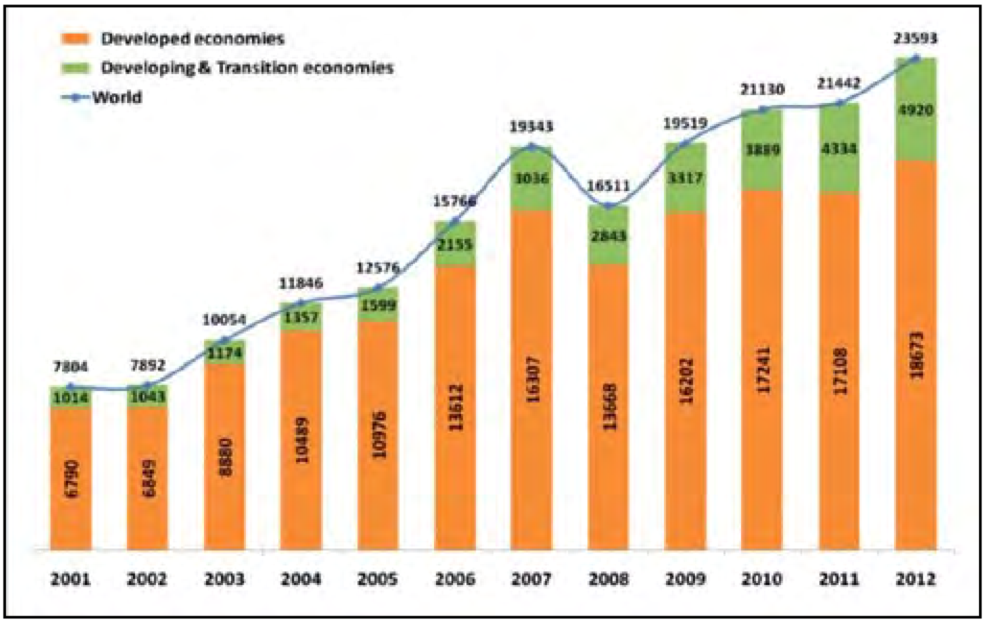


Source : World Investment Report, 2013; EXIM Bank Research

Global ODI has witnessed an upsurge during the last decade with ODI flows increasing from US$ 760 bn in 2001 to a peak of US$ 2272 bn in 2007. This underlines the rise in ODI flows from both developed and developing economies. However, the global financial crisis, which emanated in 2008, brought about a slowdown with global ODI flows moving south from the high they experienced in 2007 to amount to US$ 2005 bn in 2008 and further fell sharply to US$ 1150 bn in 2009 (a year-on-year decline of 74 per cent). However, 2010 experienced a revival of sort with ODI flows increasing appreciably by 30.8 per cent to touch US$ 1505 bn. The recovery continued in 2011 when FDI outflows managed to register a 11.4 per cent increase to aggregate to US$ 1678 bn. Nonetheless, in 2012 ODI flows again witnessed a decline to touch US$ 1391 bn.

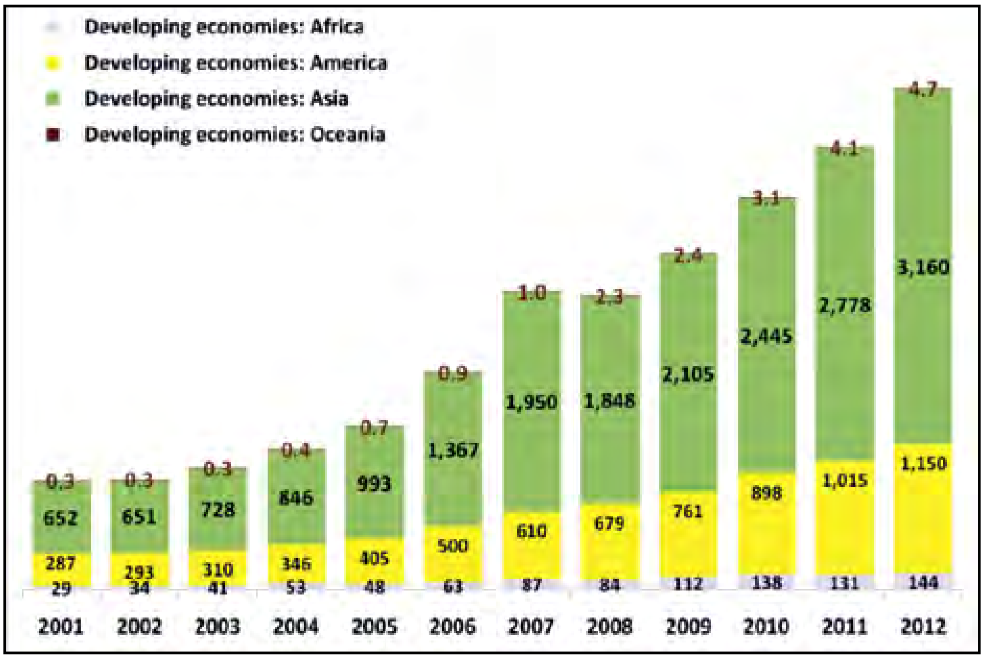
A discernible trend in the world FDI outflows has been the emergence of developing economies as key contributors to these flows. The share of developing economies (including transition economies) in world ODI flows increased by close to three times – from 12.5 per cent in 2001 to 34.6 per cent in 2012. In fact, ODI flows from developing economies during this period increased by more than 5 times – from US$ 95 bn to US$ 482 bn. The increase has been especially rapid over the last few years with ODI flows more than trebling from the level of US$ 159 bn in 2005. This surge in developing country FDI outflows over the last few years has largely been due to the dynamism exhibited by the countries of the Asian region as also outflows witnessed from the Russian Federation. If a comparison is made in terms of ODI flows from developing economies in 2005 and 2012, the share of developing Asia in developing country ODI flows (incl. for Transition Economies) has increased from 58.9 per cent to 64.0 per cent, while the share of transition economies marginally increased from 9.7 per cent to 11.5 per cent, primarily due to a surge in outflows from Russia. As against this, the share of Africa increased marginally from 1.2 per cent to 3.0 per cent during 2005 and 2012. Within Asia, it was China which led the growth, increasing its share from 8.4 per cent to 17.5 per cent. India, on the other hand, witnessed a marginal decline in share from 2.0 per cent to 1.8 per cent during this period. The other major economy which recorded a rise was South Korea, increasing its share from 4.3 per cent to 6.8 per cent. Other economies including Hong

Exhibit - 5 : Trends in World ODI Stock (US$ bn)



Source: World Investment Report, 2013: EXIM Bank Research

Exibit - 6: Trends in Regionwise FDI Outward Stock: Developing Economies (US$ bn)



Source: World Investment Report, 2013: EXIM Bank Research

Kong, Taiwan, Singapore witnessed a decline in their shares although they remain key payers in terms of FDI outflows from Asia.

The increasing emergence of developing countries in global FDI outflows is reflected in their rising shares in world outward FDI stocks. While the global outward FDI stock increased from US$ 7.8 trillion in 2001 to US$ 23.6 trillion in 2012, recording a compounded annual growth of 10.6 per cent, outward FDI stock of developing economies shot up from around US$ 1 trillion to US$ 4.9 trillion, registering a CAGR of 15.4 per cent during the same period. This resulted in the share of developing and transition economies in outward FDI stock increasing from 12.8 per cent in 2001 to 20.8 per cent in 2012.

Within developing economies, it was the Asia region which accounted for the bulk of the ODI stock – 68.6 per cent in 2005, which increased to 70.8 per cent in 2012. At the same time, it may be noted that the ODI stock share of China and India in overall developing economy ODI stock recorded an increase, from 3.9 per cent to 11.4 per cent, and from 0.6 per cent to 2.6 per cent, respectively during this period. While China's overseas investment thrust has hitherto been more top-down, India's approach has been more decentralized and calibrated, a reflection of the differing political systems in, and the overall development strategies of, the two countries. Though outward FDI figures show that India has been lagging behind China, many Indian companies have been involved in outward ventures for far longer than their Chinese counterparts and have, over time, developed the requisite knowledge and acumen to deal with the complex issues relating to the management of cross-border alliances, including maintaining soft skills. In addition, most of the outward investments from India have been undertaken by home-grown companies, unlike China where a large part of outward FDI is contributed by overseas transnational companies.

SUM UP

The rising trend of ODI from some developing and transition economies reflects the increasing competitiveness of many firms in these economies. The surge in such overseas investments has also partly been fuelled by soaring export revenues from manufactured products and natural resources in some countries, which have contributed to building up the financial strength needed to engage in overseas investment. They have come to realize the growing importance of accessing international markets and connecting to global production systems and knowledge networks. The rise in ODI from developing economies has also been characterized by participation of increasing number of countries. While earlier episodes of outward expansion from developing countries involved mainly the newly industrializing economies of Asia, and some Latin American and West Asian economies, a broad spectrum of developing countries, such as Argentina, Chile, China, India, Malaysia, Nigeria, South Africa, Thailand, Turkey and Venezuela, as well as several lower income economies, are now expanding their reach. The Russian Federation has also emerged as a major source of outward direct investment. Going forward, such a trend is not just likely to continue but also get increasingly stronger.

Box 1: The Increasing Importance of Indirect FDI flows

The current geographical pattern of FDI in terms of home and host countries is influenced by several factors which could potentially convey distorted results. Today, a significant proportion of global FDI flows are indirect. Various mechanisms are behind these indirect flows, including:

- ❖ ***Tax-haven economies and offshore financial centers*****:** Tax-haven economies have now begun to account for an increasing share of global FDI flows, reaching more than 4 per cent in 2011. It is more than likely that those investment flows do not stay in the tax-haven economies and are redirected. At the regional or country level, the share of those economies in inward FDI can be as high as 30 per cent for certain Latin American countries (Brazil and Chile), Asian economies (Hong Kong, China) and the Russian Federation.
- ❖ ***Special-purpose entities (SPEs):*** Although many tax-haven economies are in developing countries, SPEs, including financial holding companies, are more prevalent in developed countries. Luxembourg and the Netherlands are typical of such countries. It is not known to what extent investment in SPEs is directed to activities in the host economy or in other countries.

FDI stock in financial holding companies, 2009

	Share in Total	
Economy	**Inward**	**Outward**
Cyprus	33 %	31 %
Denmark	22 %	18 %
France	9 %	6 %
Luxembourg	93 %	90 %
Netherlands	79 %	75 %
Argentina	2 %	na
HK, China	66 %	73 %
Singapore	34 %	na

In general, whether or not through the use of tax havens and SPEs, investments made by foreign affiliates of TNCs represent an indirect flow of FDI from the TNC's home country and a direct flow of FDI from the country where the affiliate is located. The extent of this indirect FDI depends on various factors:

- ☐ ***Corporate governance and structure:*** A high degree of independence of foreign affiliates from parent firms induces indirect FDI. Affiliates given regional headquarters status often undertakes FDI on their own account.

- ☐ ***Tax:*** Differences in corporate taxation standards lead to the channeling of FDI through affiliates, some established specifically for that purpose. For example, Mauritius has concluded a double-taxation avoidance treaty with India and has attracted foreign firms - including many owned by non-resident Indians - that establish holding firms to invest in India. As a result, Mauritius has become one of the largest FDI sources for India.

- ☐ ***Round tripping:*** Round-tripping refers to the channeling abroad by direct investors of local funds and the subsequent return of these funds to the local economy in the form of direct investment. Round-tripping can take many formats like under-invoicing and over-invoicing of exports and imports. Round-tripping involves getting the money out of India to, say, Mauritius, and then bringing it back to India as FDI or FII investment. Round tripping is a major reason for Mauritius being a source as well as destination for FDI.

- ☐ ***Cultural factors***: Greater cultural proximity between intermediary home countries and the host region can lead to TNCs channeling investment through affiliates in such countries. Investment in Central and Eastern Europe by foreign affiliates in Austria is a typical case.

Investment can originate from any affiliate of a TNC system at any stage of the value chain. As TNCs operate more and more globally, and their corporate networks become more and more complex, investments by foreign affiliates will become more important.

Source: World Investment Report, 2012

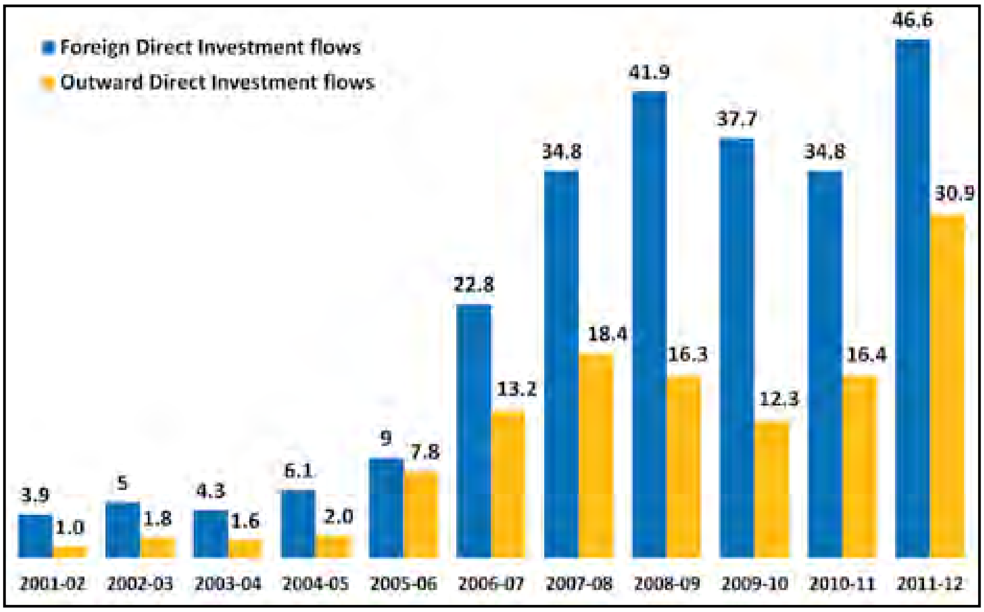
3. INDIA'S OUTWARD DIRECT INVESTMENT

With increasing global competence, India is set to become a major source of foreign investment for rest of the world. Given the current trend, a number of private players, alongside the state-owned entities, are increasingly expanding their footprints in foreign lands through direct investments with a view to achieve regional and global reach. India Inc's foreign investments have primarily been driven by either resource seeking or market seeking or technology seeking motives. Indian economy's integration with the rest of the world has given domestic corporate sector access to global networks and markets, transfer of technologies and skills and has also facilitated research and development for value addition. The current surge in India's FDI outflows attests to the expanding base of domestic firms, which are able to compete globally, reflecting increasing quality and cost competitiveness to sustain long-term domestic and international growth.

ODI vs. FDI: RECENT TRENDS

The increase in ODI from developing countries has largely been at the back of increasing outflows from India and China. In the case of India, this surge in ODI attests to the expanding base of domestic firms, who are now able to compete globally, reflecting enhanced quality and cost competitiveness to sustain long-term domestic and international growth. Focus on core competencies, increased R&D efforts and enhanced technological know-how have underlined this development. At the same time, access to markets, natural resources, distribution networks, foreign technologies, and strategic assets like brand names have motivated Indian companies to increasingly look outward in their endeavours to internationalize their operations. Further, the shift in the pattern of financing overseas investment, from equity outflows from the host country towards re-invested earnings, is an indicator of the increasing confidence of Indian firms in their internationalization process and the stability of such investments across a cross section of countries.

Exhibit 7: Trends in India's Investment: Inflows & Outflows (US$ bn)



Source: Data derived from RBI database; EXIM Bank; ODI data for 2011-12 is approvals

As was highlighted in the previous chapter, Indian enterprises foray into the international business was largely confined to select business houses in the 1960s, which later gathered momentum as foreign exchange restrictions on capital transfers for overseas acquisitions started gradually being liberalized.

An analysis of the trends in direct investments over the last decade reveal that while the investment flows, both inward and outward, were rather muted during the early part of the last decade, they gained increased momentum in the latter half of the same decade. While FDI inflows recorded a CAGR of 28.2 per cent, increasing from US$ 3.9 bn in 2001-02 to US$ 46.6 bn in 2011-12, FDI outflows registered a higher growth, increasing at a compounded annual rate of 40.9 per cent – from US$ 1.0 bn to US$ 30.9 bn during this period.

Thus, the gap between FDI and ODI flows, which was quite substantial during the first half of the decade, narrowed down significantly. In 2001-02, annual outflows, on average, amounted to 26 per cent of inflows which increased to 33 per cent in 2004-05. However, in the year 2005-06, FDI outflows shot up significantly and were 87 per cent of the inflows in that year, before tapering to 47 per cent in 2010-11, but again moved northwards to touch 66 per cent in 2011-12. The sudden spurt of the ratio of ODI to FDI in 2011-12 was largely on account of substantial increase in FDI outflows (approvals) by 88 per cent from US$ 16.4 bn in 2010-11 to US$ 30.9 bn in 2011-12, combined with a relatively lesser increase in FDI inflows by 34 per cent during the same period.

CHANGING TRENDS IN ODI FROM INDIA

Although a few Indian enterprises were investing abroad in the mid-1960s, ODI activity gained significance only since the onset of economic reforms in 1991. ODI underwent a considerable change in the 1990s not only in terms of magnitude, but also in terms of geographical focus and sectoral composition. It has been argued that this change in the geographical and sectoral composition of ODI has been in line with the change in the motives of firms investing overseas - from essentially market-seeking to more asset-seeking ones to support export activity with regional presence.

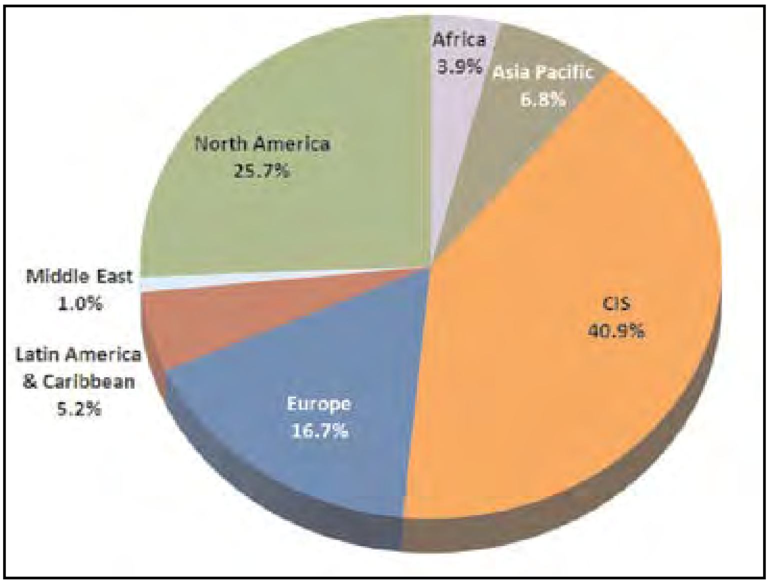
India's ODI: Changing Direction

Direction of India's ODI has witnessed a perceptible shift during the last decade. This is evident from Exhibit 8 and Exhibit 9 - while the CIS region accounted for a major portion of India's overseas direct investment in 2001-02 (at 41 per cent) its share declined significantly in 2011-12 to less than 1 per cent. Africa and Asia Pacific have emerged as significant destinations for India's ODI with their shares increasing from 3.9 per cent and 6.8 per cent in 2001-02 to 24.3 per cent and 31.4 per cent, respectively in 2011-12.

During 2001-02, most regions attracted Indian investments into their manufacturing sector with this sector being the largest destination for all regions, except North America, Latin America (ranked second in both these regions) and the Middle East (where it was ranked third). However, in 2011-12, while manufacturing continued to be the dominant sector in Africa, and Europe and emerged as the leading sector for Indian investments in the Middle East, it lost out its position to other sectors in the rest of the regions. Nonetheless, cumulatively for the period between 2001-02 and 2011-12, manufacturing sector was the major destination for Indian investments, figuring among the top two for each of the region across the globe.

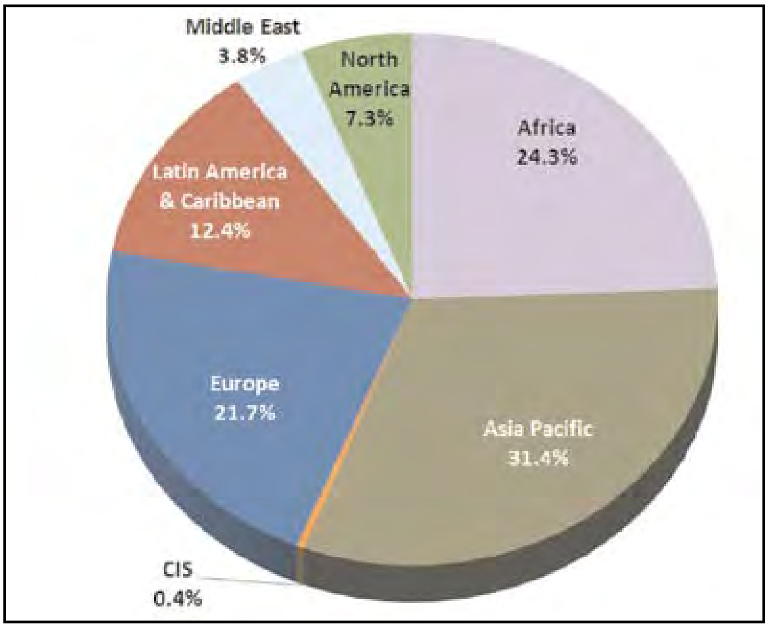
In terms of individual countries, while Russia, which was India's leading ODI destination in 2001-02 with a share of close to 41 per cent, it dropped

Exhibit 8: Regionwise ODI in 2001-02 (Total: US$ 999 mn)



Source: Derived from RBI Data, EXIM Bank Research

Exhibit 9: Regionwise ODI in 2011-12 (Total: US$ 30863 mn)

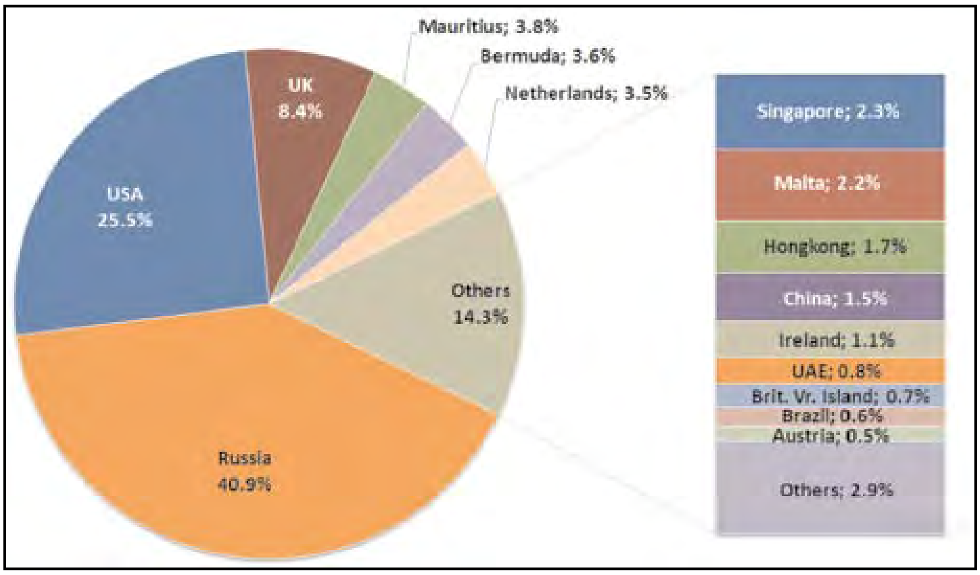


Source: Derived from RBI Data, EXIM Bank Research; 2011-12 data is for ODI apporval to second position in 2005-06 with a share that was less than one-third of what it was four years back. India's ODI in the early part of 2000s was largely directed to traditional countries which were generally considered as mature markets. As against this, during the mid-2000 period, resource rich countries like Sudan also emerged as India's major investment destinations. However, by 2011-12 a significant amount of ODI had moved towards countries providing tax benefits like Mauritius, Singapore, British Virgin Islands and the Netherlands.

Looking at specifics, during 2001-02, Russia was the major ODI destination for India with the favoured sector for investment being primarily the manufacturing sector (US$ 408.3 mn), almost exclusively into manufacture of refined petroleum products (US$ 408.15 mn). Followed by Russia was USA with a share of 25.5 percent, with sizeable investments targeted towards the financial, insurance, real estate and business services sector (US$ 210 mn), especially into data processing, software development and computer consultancy services (US$ 184.17 mn). United Kingdom was the third largest destination for Indian investments in 2001-02 with a share of 8.4 per cent (US$ 83.46 mn) followed by Mauritius (3.8 per cent share), with manufacturing again being the dominant sector for both these locations. Smaller countries like, Bermuda, with a 3.6 per cent share, received investments in data processing, software development and computer consultancy services sector (US$ 36.3 mn), while Malta received primarily into the ship and boat building sector (US$ 10.84 mn).

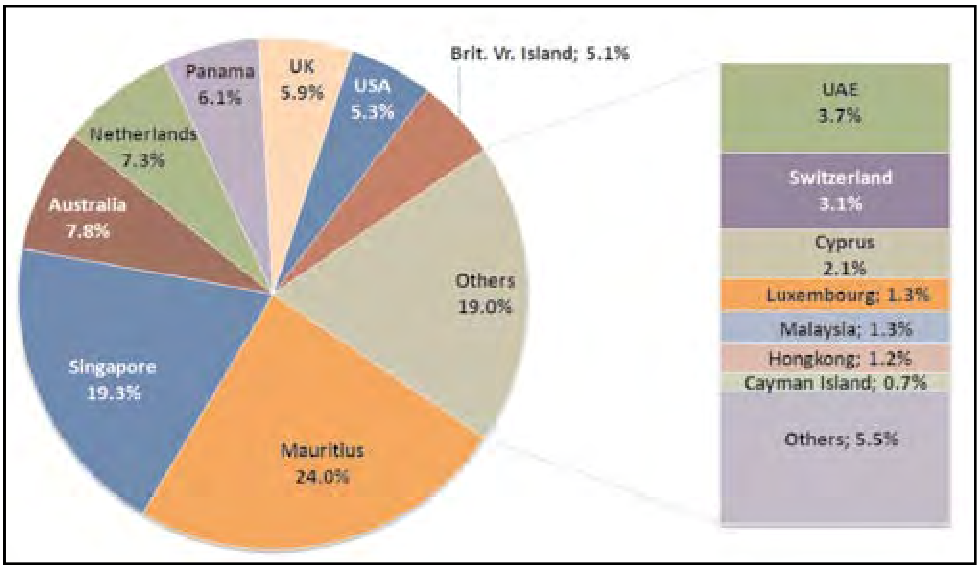
By 2005-06, United Kingdom emerged as the largest destination with Indian direct investments increasing substantially in that year to US$ 3019.1 mn. A significant value of US$ 2760 mn was invested into manufacturing of machinery and equipment used by construction and mining industries, apart from a several smaller investments which went into data processing, software development and computer consultancy services (US$ 19.9 mn). While most of the top destinations remained same, Cyprus, Liberia and Sudan made an entry as India's major investment destinations together accounting for nearly 8 per cent of India's direct investment flows in that year. Investments to the tune of US$ 131.1 mn were made into Sudanese manufacturing of refined petroleum products, while ship and boat building was the favoured sector for investment into Liberia. Cyprus, on the other hand, received a considerable amount of investments into wholesale trade of tea, coffee, cocoa, tobacco products and beverages other than intoxicants

Exhibit 10: Distribution of Indian Outward FDI Flows in 2001-02 (Total: US$ 993 mn)



Source: Derived from RBI Data, EXIM Bank Research

Exhibit 11: Distribution of Indian Outward FDI Flows in 2011-12 (Total: US$ 30863 mn)



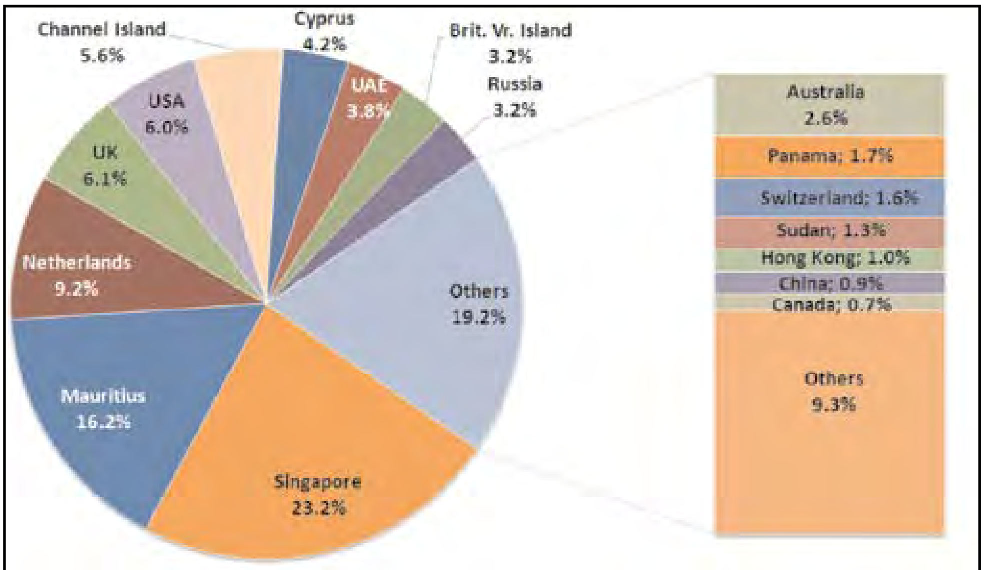
Source: Derived from RBI Data, EXIM Bank Research; 2011-12 are ODI approvals segment worth US$ 169 mn. India also invested US$ 133.8 mn in the manufacture of drugs, medicines and allied products in Cyprus during the same period.

As in 2001-02 and 2005-06, Mauritius continued to be among India's leading destination for its ODI, and in 2011-12 as well, accounting for nearly a quarter of the country's total ODI in that year. Singapore was the second largest destination (19.3 per cent) followed by Australia (7.8 per cent), Netherlands (7.3 per cent) and Panama (6.1 per cent).

Overall, in terms of cumulative Indian outward investment flows during the period 2003-04 to 2011-12, Singapore, Mauritius and Netherlands were the top three destinations, together accounting for nearly half (US$ 58 bn) of the of total outward investments of US$ 119 bn from India. Thus, a notable characteristic that is evident in the pattern of Indian ODI has been the continuous and consistent significance of countries providing tax-benefits for attracting investments.

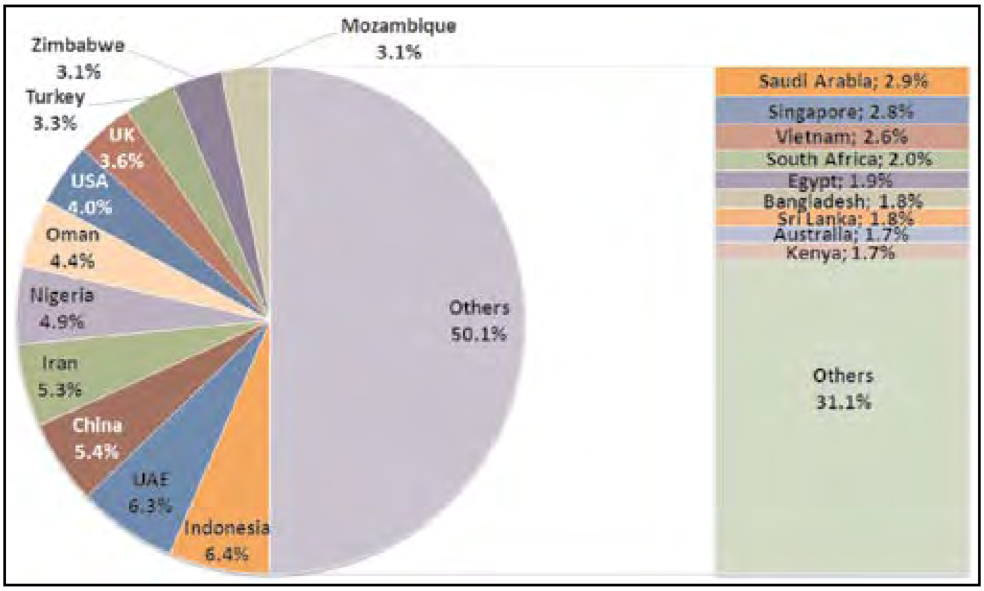
While in themselves, these countries are neither having large resource base nor do they have significant domestic markets to warrant the amount of investments witnessed over the years, however, they do

Exhibit 12: Distribution of Indian Outward FDI Flows Cumulative 2003-04 to 2011-12 (Total: US$ 119 bn)



Source: Derived from RBI Data, EXIM Bank Research

Exhibit 13: Cumulative Capex of Indian ODI during Jan 2003 to Aug. 2012 (Total: US$ 225 bn)



Source: fDi intelligence, EXIM Bank Research

provide considerable amount of tax benefits which make them attractive destinations for onward routing of investments. For instance, Mauritius has consistently been among the largest destinations for Indian ODI, with Bermuda, Singapore and Hong Kong also being consistently among the top 10 destinations during the first decade of 2000. Most of these countries are regarded as offshore financial centres that are used by foreign investors as intermediaries, predominantly to capitalize on the tax rebates that they offer so as to minimize their overall tax burden. As Indian companies have become more globalized, many have chosen either to use their locally incorporated subsidiaries abroad to invest in these countries, or to establish holding companies and/or special purpose vehicles in these financial hubs, or other regional financial centres, such as the Netherlands, to raise funds and invest in third countries.

The RBI data on overseas direct investments only captures the actual flow of funds rather than the ultimate destination of fund flows and this could lead to distorted picture of the extent of the linkages between India and the rest of the world in terms of actual outward investments. To overcome this limitation, and to get a more meaningful understanding on the trends in Indian overseas investments would entail supplementing RBI data with other reliable sources tracking micro level data on cross-border investments. For this purpose, this study had drawn upon the data collated by the Financial Times through its online database tracking cross-border greenfield investment, viz. fDi Markets, which provides real-time monitoring of investment projects and capital investment to track and profile companies investing overseas. As per this data, during the period January 2003 to August 2012, in terms of cumulative number of overseas investment projects, USA, UK, UAE and China emerged as the top destinations together accounting for more than one third of the total number of such projects (which amounted to 2745 during this period). However, in terms of actual capital expenditure (capex), Indonesia was the largest destination with total capex aggregating to US$ 14.4 bn (share of 6.4 per cent). Other significant destinations in terms of actual capex resulting out of Indian overseas investments during this period included UAE (US$ 14.3 bn), China (US$ 12.1 bn), Iran (US$ 11.9 bn), Nigeria (US$ 11.1 bn) and Oman (US$ 9.9 bn).

India's ODI: Changing Sectors

In terms of sectoral dispersion of Indian overseas investment, it has primarily been the manufacturing sector that has been the most favoured choice, across most of the last decade. An analysis of Indian ODI based on RBI data over the 2003-2012 period indicates that while manufacturing has been the dominant sector, its significance has gradually been diminishing. Thus, while the share of manufacturing sector in 2003-04 was 59.8 per cent, its share declined to 40.3 per cent by 2009-10 and further to 31.5 per cent in 2011-12. The other major broad sectors attracting Indian overseas investment was finance, insurance, real estate and business services; and wholesale, retail trade, restaurants and hotels. While the former group's share increased from 12.6 per cent in 2003-04 to 29.2 per cent in 2009-10, before tapering off to 19.7 per cent in 2011-12, the latter's share has more or less remained stable hovering around the 9-11 per cent range during this period, but for the year 2006-07, when its share dropped to below 4 per cent.

Further analysis reveals that, within manufacturing, drugs, medicines and allied products has been one of the focus industries in terms of overseas investment with cumulative ODI during the 2003-04 to 2010-11 period aggregating US$ 3.8 bn. Over this period, the trend in ODI has shifted in favour of sectors such as manufacture of basic chemicals, agriculture

Table 1: India's Overseas Direct Investments: Sectorwise (US$ Mn)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Grand Total
Manufacturing	**935.5**	**1324.1**	**6082.6**	**3659.8**	**4691.4**	**9892.0**	**4969.2**	**4868.4**	**9720.4**	**48027.2**
Financial, Insurance, Real Estate And Business Services	197.3	330.1	930.7	8467.5	9521.6	3513.9	3594.2	6410.7	6083.6	39736.4
Wholsale, Retail Trade, Restaurants And Hotels	157.8	182.7	383.8	521.1	1076.3	1079.6	933.7	1812.7	3519.6	9755.9
Transport, Storage And Communication Services	215.5	12.4	192.8	112.0	1238.7	306.8	373.6	721.2	4470.9	7673.4
Agriculture , Hunting, Forestry And Fishing	21.2	40.6	53.5	217.5	557.8	543.8	936.3	1185.7	2767.1	6399.0
Construction	1.2	35.5	36.9	101.1	695.0	341.4	361.4	371.0	3362.2	5312.4
Community, Social And Personal Services	31.8	64.0	123.1	88.2	193.2	386.4	177.6	697.1	461.1	2296.1
Electricity, Gas And Water	1.0	1.7	5.3	16.9	37.3	142.3	838.9	97.0	316.5	1458.4
Miscellaneous	2.8	0.7	26.0	52.8	435.6	121.6	118.8	239.0	161.6	1159.8
Grand Total	**1564.1**	**1991.8**	**7834.6**	**13236.8**	**18446.7**	**16327.7**	**12303.6**	**16402.7**	**30862.9**	**121818.5**

Source: Derived from RBI data, EXIM Bank Research; data for 2011-12 is for approved ODI

Exhibit 14: Sectorwise ODI in 2003-04

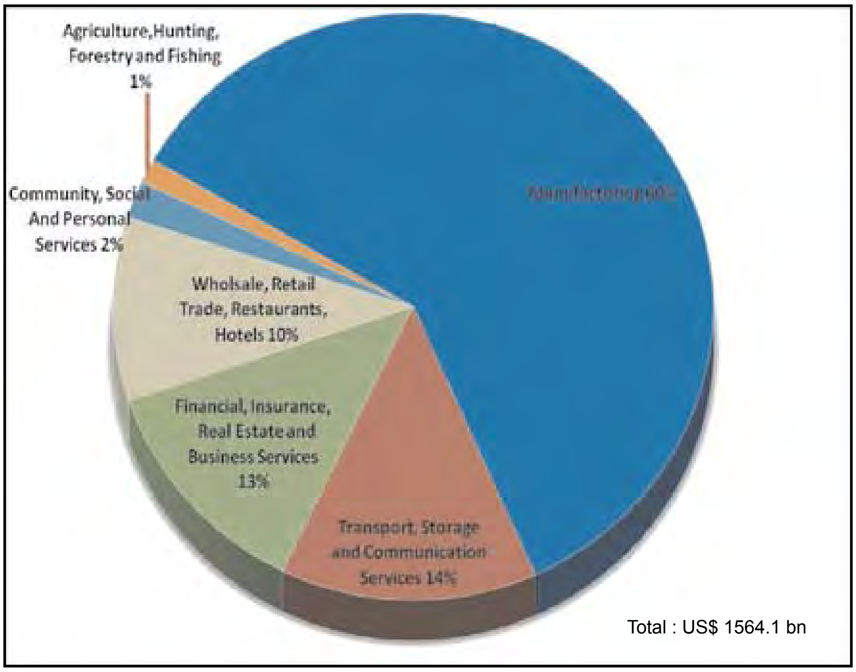
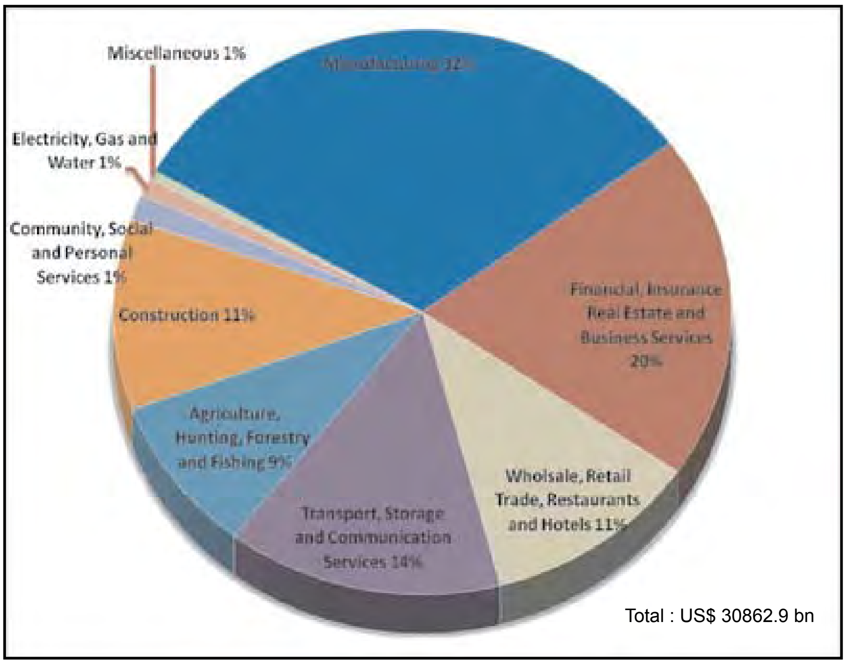


Exhibit 15: Sectorwise ODI in 2011-12



Source: Derived from RBI data, EXIM Bank Research; approved ODI machinery and equipment and iron and steel in primary or semi-finished form as compared to manufacture of refined petroleum products and fertilizers and pesticides which dominated India's ODI in the early part of the decade. On the whole, in 2010-11, of the top 8 overseas invested sub sectors, 5 were related to the services constituting 52 per cent of the total overseas investments - financial, insurance, real estate and business services (US$ 6.4 bn); restaurants & hotels (US$ 1010.5 mn); wholesale trade & retail trade (US$ 802.14 mn); community, social and personal services (US$ 697.05 mn) and Communication (US$ 600.3 mn). The only other sector not belonging to services which was among the top sectors during the same period was manufacture of drugs, medicines and allied products (US$ 642.73 mn).

Industries like Financial, Insurance, Real Estate and Business Services which had the maximum share in ODI both during the period 2003-04 and 2010-11, exhibited an annual average growth rate (AAGR) of over 155.6 per cent during 2003-11 - the industry in fact has witnessed a spurt in investments since 2006 onwards, with AAGR of 168 per cent during the period 2006-11. India's investments into the Financial, Insurance, Real Estate and Business Services have largely been focused to countries like Singapore, Mauritius and USA with a cumulative investment of US$ 20 bn during the period 2003-11.

Manufacture of chemicals and chemical products which ranked second in 2010-11 in ODI from India, has exhibited an increase of an AAGR of 138.6 per cent during 2006-11. This sector also received significant investments of US$ 2.3 bn during the last 5 years, which constituted 88 per cent of the ODI during 2001-11. As in 2010-11 India's major ODI destinations in the chemicals and chemical products included Mauritius, UK, Netherlands, and UAE.

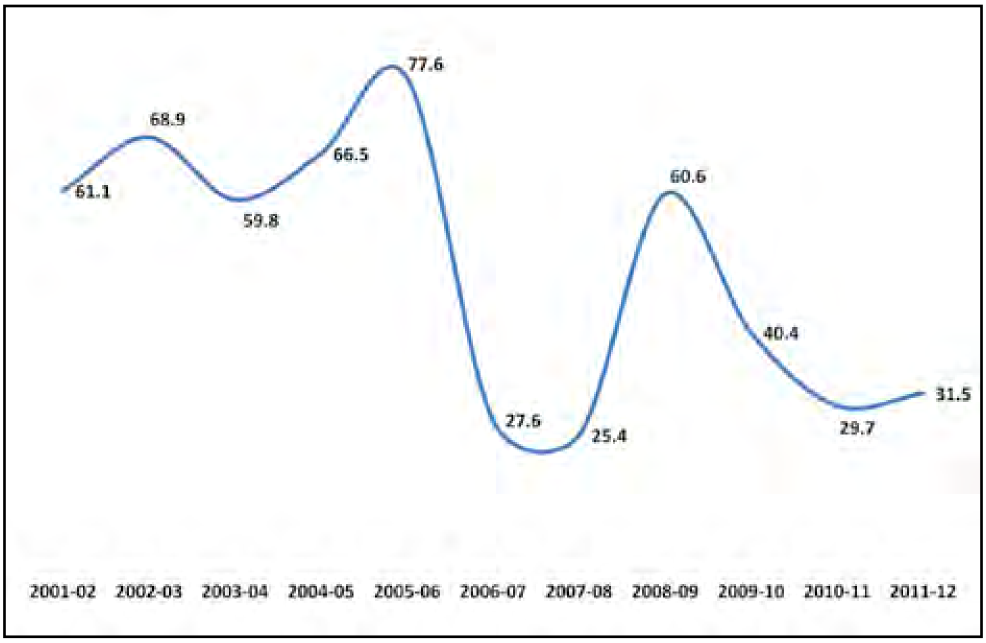
It may be noted that most part of the last decade, India's investment into Restaurants & Hotels segments has not been considerable. However, since 2007-08, Indian firms have started taking interests to invest abroad into this sector. Restaurants & Hotels sector witnessed an increase at an AAGR of 305.1 per cent during the period 2006-11. Infact over 98 per cent of the total investments into the sector during the period 2001-11 came during 2007-11. The major destinations for overseas investments from the sector during 2010-11 include Mauritius and Cyprus, with US$ 829.9 mn and US$ 99.1 mn respectively.

Another sector that has witnessed a significant growth in ODI is Mining & Extraction which has seen investments to the tune of

US$ 865.1 bn in 2010-11. In fact the sector has seen a significant growth over the last 10 years – a 50 times increase in ODI during 2003-11. With paucity of available natural resources and the rising demand the industry is poised to witness further investments abroad with companies scouting for natural resources both in mining and extraction. The major destinations in 2010-11, apart from Mauritius are China, Singapore, Australia and Indonesia*. It may be noted that if we leave the anomaly of 2010-11, wherein countries like China and Singapore appears amongst the top 5, India's major ODI destination in mining and extraction remains as Indonesia and Australia, apart from Mauritius.

At the sub-activity level it is found that there has been a gradual change in the area of investments. During 2003-04, a chunk of the investments made overseas went to manufacture of refined petroleum products (US$ 407.58 mn with a share of 26.1 per cent), followed by postal, telegraphic, wireless and signal communication services (US$ 215 mn with a share of 13.7 per cent), manufacture of drugs, medicines and allied products (US$ 200.2 mn with a share of 12.8 per cent), data processing,

Exhibit 16: Share of Manufacturing in ODI from India



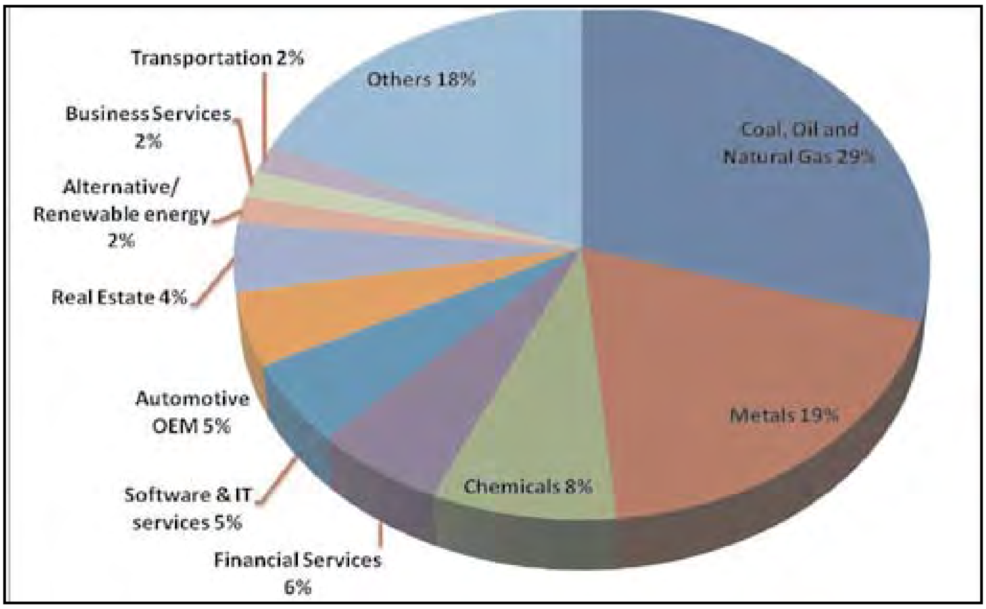
Source: Derived from RBI data, EXIM Bank Research

*Mauritius and Singapore are generally termed as tax havens software development and computer consultancy services, processing (US$ 175.9 mn with a share of 11.2 per cent), and manufacture of fertilizers and pesticides (US$ 81.81 mn a share of 5.2 per cent). However, of late the scenario has changed. As in 2010-11 of the top 4 overseas invested sub sectors, 3 were related to the services - other business services not elsewhere classified (US$ 4.06 bn with a share of 24.8 per cent), hotels, rooming houses, camps and other lodging places (US$ 1.06 bn with a share of 6.1 per cent); and, data processing, software development and computer consultancy services (US$ 715.09 mn with a share of 4.4 per cent).

Refer to Annexure 2 for the detailed list of Sector wise ODI from India cross classified by countries.

In terms of cumulative US$ 225 mn actual capital expenditure (capex) sector wise, (Exhibit 17) coal, oil and natural gas was the largest sector that received ODI with total capex aggregating to US$ 66.5 bn (share of 29 per cent). Other significant sectors in terms of actual capex resulting out of Indian overseas investments during this period included Metals (US$ 42.5 bn), Chemicals (US$ 18.3 bn), and Automotive OEM (US$ 10.4 bn). Services sectors like Financial Services (US$ 12.9 bn), Software & IT (US$ 11.7 bn), Real Estate (US$ 9.6

Exhibit 17: Capex of Indian ODI - Sectorwise - 2003 - Aug 2012 (US$ 225 mn)



Source: fDi intelligence, EXIM Bank Research bn), and Business Services (US$ 3.8 bn), are the other major beneficiaries of ODI from India.

ODI in the Manufacturing Sector

Overseas investments into the manufacturing sector are always looked upon as a strategic move given the asset value it creates. Though the manufacturing sector has been witnessing significant amount of investment overseas in the last 10 years, the sector has been exhibiting crest and trough trend in its share in overseas investment. The first half of the last decade showed a significant share in manufacturing which increased from 61.1 per cent in 2001-02 to touch a decadal high of 77.6 per cent in 2005-06. However, after witnessing a steady decline in the next 2 years in 2008-09, the share rebounded to touch 60.6 per cent from a low of 25.4 per cent in the previous year. The years that followed again exhibited a decline to 40.4 per cent in 2009-10, 29.7 per cent in 2010-11, and finally recovered marginally to touch 31.5 per cent in 2011-12.

It is found that the sectorwise investment overseas has changed significantly over the 10 years. In 2001-02, the maximum investment overseas was done in the manufacture of food products with a share of 32 per cent, followed by manufacture of other articles of paper and paper products, manufacture of other transport & storage equipments, together of which constitutes over 30 per cent of the ODI share. By 2005-06, the trend has changed with the maximum share in ODI going to manufacture of machinery and equipment n.e.c. (63.3 per cent). This was followed by the manufacture of pharmaceuticals, medicinal chemical & botanical products with a share of 17 per cent, and manufacture of chemical & chemical products with a share of 6 per cent.

However, by 2011-12, investments in the top order of the manufacturing sector industrywise have seen some changes. Coke and refined petroleum products constituted 22.4 per cent, manufacture of Pharmaceuticals, medicinal chemical & botanical products with a share of 20.1 per cent, while Electrical equipment constituted a 13.5 per cent share.

SUM UP

Our analysis corroborates well the fact that there has been a perceptible broadening of sectoral and regional distribution of Indian overseas investment. India is also expected to continue to invest in developed-countries, particularly now in view of correction in asset prices due to the global crisis. In addition, Indian firms are seeking more strategic investments in emerging markets, particularly in Africa. The race for

Table 2: Sectorwise Investments in the Manufacturing Sector – 2001-02 to 2011-12 (US$ Mn)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Grand Total	131.3	150.7	294.8	546.9	4364.7	1166.3	2816.9	6198.2	3954.8	3393.4	9720.4	32738.2
Coke and refined petroleum products	-	1.3	1.1	0	87.3	14.1	9.3	199.5	264.8	29.2	2179.4	2786.0
Pharmaceuticals, medicinal chemical & botanical products	4.8	4.1	60.4	70.9	743.1	222.4	451.9	403.5	305.9	713.1	1956	4931.3
Electrical equipment	3.8	3.2	13.8	12.9	15.7	99.5	750.3	729	302.6	189.5	1314	3430.5
Other transport & storage equipment	14.1	17.1	33.5	45.2	167.8	32.8	122.6	67.6	228.6	84.8	1068.2	1868.2
Chemicals & chemical products	11.3	81.8	104.5	89.1	259.9	397.6	148.4	503.8	98.8	963.6	867.1	3514.6
Basic metals	1.8	0.5	0.2	187.6	101.4	42.3	82.9	75.7	233.3	210.3	497.6	1431.8
Other non-metallic mineral products	0.1	3	1.5	10.9	39.6	38.6	80.8	102.1	72.8	165.7	439.8	954.8
Computer, electronic and optical products	14.1	-	18.9	44.9	46.3	65.6	40.2	153.7	11.2	20	429.4	830.2
Motor vehicles, trailers and semi-trailers	-	-	-	-	0.5	0.5	4.7	0.7	0.1	0.6	304.8	311.9
Textiles	-	6.1	3.9	3.8		4.7	6.7	10.7	0.5	52.6	163.4	252.4
Food products	43.1	2	3	65.9	62.4	4.4	88.1	47.3	125.1	612.6	161.5	1172.3
Machinery and equipment n.e.c.	-	0.3		8	7.2	104.6	56.5	1548.2	1978	135.2	156.9	3994.9
Fabricated metal products, except machinery & equipment	3	3	8.1	0	32.1	72.4	664.7	2208.7	77.8	39.1	67.1	3173
Wearing apparel	0.2	-	0.1	0	-	-	-	0	0.2		53.9	54.2
Rubber & plastics products	3.8	8.3	5.8	-	-	0.6	48.7	76.9	16.8	59.2	19.8	236.1
Leather & related products	0.7	0.9	1.3	0.7	0.4	0.2	7.9	0.2	8.8	0.1	19.6	40.1
Other articles of paper and paperboard	30.4	19	13.8	0.1	0.1	8.8	0.1	15.1	16	21.1	7.8	101.9
Beverages	-	0.1	23.8	1.7	2763.8	42.4	202.5	37.3	168.7	65.7	5.7	3311.7
Paper and paper products	0.1	0.1	1.3	4.7	5.4	5.3	25.4	9.3	23.8	3.6	0.8	79.7
Wood & of products of wood & cork, except furniture	-	-	-	0.1	-	1.7	2.1	1	0.7	4.9	0.1	10.6
Manufacture of furniture	-	-	-	0.4	0.4			0.2	0.2	2	0	3.2
Other food products n.e.c.	-	-	-	-	31.2	7.9	23.1	4.1	20.3	15.1	0	101.7
Tobacco products	-	-	-	-	-	-	-	3.5	-	5.5	0	9
Others	-	-	-	-	-	-	-	-	-	-	7.3	7.3

Source: Derived from RBI data, EXIM Bank Research; data for 2011-12 is for approved ODI acquiring companies abroad is being fuelled by India's demand for natural resources as the country tries to regain its 8-9 per cent growth rate. Indian companies would be extremely active in oil and gas, industrial products, power, mining and minerals sectors and in regions that offer such potential.

The current surge in India's FDI outflows attests to the expanding base of domestic firms, which are able to compete globally, reflecting increasing quality and cost competitiveness to sustain long-term domestic and international growth. Focus on core competencies, increased R&D efforts, and enhanced technological know-how have underlined this development. At the same time, access to markets, natural resources, distribution networks, foreign technologies and strategic assets like brand names will further motivate Indian companies to increasingly look outward in their endeavours to internationalise their operations.

4. EXPERIENCE OF INDIAN INVESTORS OVERSEAS: EMPIRICAL EVIDENCE

India's expedition abroad has been driven by a number of factors. Apart from regulatory changes witnessed in recent times, expanding the existing market and increasing appetite to take risk in the process were important factors in the decision of Indian firms to venture abroad. The results from EXIM Bank survey indicate varied objectives and motivations of Indian firms in their outward investment efforts, ranging from low factor cost advantages in the host country (as in natural resources) and saturation of the Indian market, to the need to enhance their export-competitiveness in third country markets, and to exploit the market potential in other countries. However, a clear outcome that emerges from the survey is that the overseas investment activities of Indian companies are motivated essentially by a set of firm-specific objectives. It can be just a market entry strategy or market entry plus strategy (e.g. accessing strategic asset) implying a multi-purpose intention of making an overseas investment. There is also an element of value addition through enhanced technical knowhow which has also been driving Indian companies to go beyond the domestic shores for investment. The analysis further reveals that the experience of Indian firms in their overseas expedition has by and large been fairly satisfactory with some of the metrics revealing a favourable response. It may be rather rudimentary to conclude with full conviction from the survey data, and further research needs to be done on the post-investment success rates of Indian firms' overseas acquisitions.

Introduction

Transnational corporations (TNCs) are subject to the various dimensions of the external institutional environment where they operate. Institutional theory suggests that TNCs need to conform to the prevailing rules, norms and procedures of the locations where they operate in order to survive and grow. This means that TNCs need to develop the best possible configuration of strategy-structures suitably customized for their worldwide operations. These strategies are primarily contingent on the objectives of the investments so made and could range from resource seeking, market seeking, efficiency seeking to strategic asset seeking.

As was highlighted in the earlier chapters, in recent years, FDI outflows from emerging economies such as India have become quite significant in the global context. While FDI outflows from India have accelerated largely during the last decade, those from East Asia and China have been occurring for more than two decades. Government policies in India as well as strong domestic growth are some of the key factors which have given confidence to Indian firms to pursue their endeavours of investing overseas.

Methodology

Set against this backdrop, this chapter would seek to outline the primary motives of Indian companies for their outward investment expeditions. The results are based on primary research, anecdotal evidence as also secondary research. Primary research involved designing an exhaustive questionnaire (refer to Annexure 4), for Indian corporates who have ventured out in terms of cross-border investments across industries and geographies. The questionnaire was designed on a 4-point semantic differential scale *(Extremely Important, Highly Important, Moderately Important and Not at all Important)* under 6 major metrics, each of which had several other sub-objectives as underlined below:

i. Resource Seeking

- Ensuring security/stability of raw material supplies
- Minimising cost of raw material supplies
- Cheap and competitive unskilled / semi-skilled labour
- Acquisition of managerial/ organisational capabilities
- Access to technological know how

ii. Market-Seeking

- Size of host country market
- Growth prospects of host country market
- Circumventing trade barriers in host country
- Physical presence in country of main suppliers or customers
- Adapt to local tastes, resources and capabilities
- Access to third country markets
- Home market too small / saturated
- Competition from foreign and local companies in home country

iii. Efficiency-Seeking

- Economies of scale and scope
- Difference in availability and cost of factor endowments in home and host country
- Risk diversification
- Supportive physical and institutional infrastructure in host country

- High logistic and transaction cost of exports from home country

iv. Strategic Asset-Seeking

- Acquisition of global portfolio of physical assets and human competence
- Promote long-term strategic objectives
- Access to new product lines
- Attractive pricing of target company/brand
- Increased willingness to take risk

v. Host Country Policies

- Country/political risk in host country
- Inward investment policy of host country
- Quality of financial regulation
- Tax regulations in host country
- Legal and property rights in host country
- Liberal exchange rate regulations in host country
- Opportunities arising out of liberalisation in host country
- Inclusion of 'Exit Clause' while entering into a joint venture.

vi. Other Macroeconomic Considerations

- Inflation differential between home and host country
- Host country currency stability
- Interest rate differential between home and host country
- Access to medium and long term finance from host country financial markets

Each of the 4 points was given a weightage ranging from 50 per cent for Extremely Important to 0 per cent for Not at all Important in order to objectively arrive at the importance of each metric influencing the decision to undertake overseas investment.

The importance of each of the sub-objectives under the six different major metrics has been captured pictorially in the form of radar graphs. These graphs depict the percentage of respondents who have conveyed the level of importance (semantically on a 4 point scale) that they attach to these objectives.

The results of the questionnaire indicate varied objectives and motivations of Indian firms in their outward investment efforts, ranging from low labour cost advantages in the host country and saturation of the Indian market to the need to enhance their export-competitiveness in third-country markets and to exploit the market potential in other countries. However, a clear outcome that emerges from the survey is that the overseas investment activities of Indian companies are motivated essentially by a set of firm-specific objectives. It can be just a market entry strategy or market entry plus strategy (e.g. accessing strategic asset) implying a multi-purpose intention of making an overseas investment.

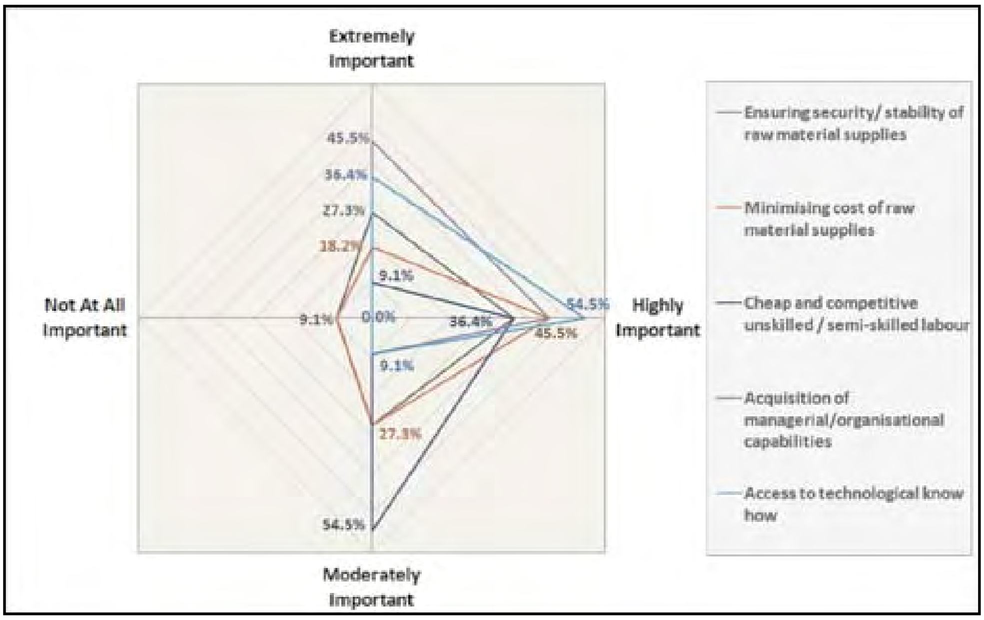
While designing the questionnaire, due attention was given to the diversified motivations of investors abroad, from market entry to the acquisition of firm-specific strategic assets to reap operational synergies and to overcome limitations of home country market. The questionnaire, apart from seeking to capture the possible reasons for firm's strategy of venturing abroad, has also attempted to capture the experience of the Indian entity after having invested abroad. The survey covers companies across the industry, including steel, power, chemical, information technology, among others. The results of the survey have been elaborated in the following sections.

PRE-INVESTMENT CONSIDERATIONS

Resource Seeking

This parameter reflects the objective of ensuring that a stable and secure supply of resources – natural, physical, technical and intellectual – is available to fuel the company's expansion plans and achievement of its long term business strategy. Under this broad parameter of investing overseas for seeking resources, 45 per cent of the respondents rated it either as extremely important or highly important while 36 per cent

Exhibit 18: Resource Seeking Radar Graph



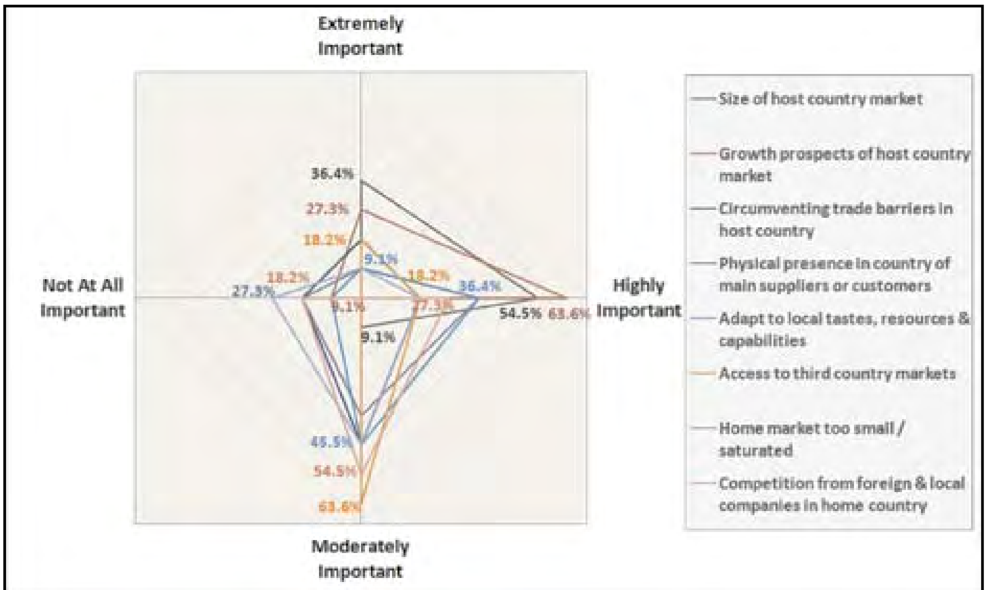
Source: EXIM Bank Research

and 54 per cent of the respondents indicated access to technological knowhow as extremely important and highly important, respectively. Taking into account the weighted average to arrive at an objective conclusion, acquisition of managerial / organizational capabilities emerges as the single most important determinant followed by access to technological knowhow. However, cheap and competitive unskilled / semi-skilled labour does not appear to have played a significant role in Indian firms' decision of investing overseas as far as the resource seeking motive is concerned.

Market Seeking

Firms may go overseas to find new buyers for their goods and services. The top executives or owners of a company may realize that their product is unique or superior to the competition in foreign markets and would want to seize this opportunity by having a physical presence there. Another motivation for market-seeking occurs when producers have saturated sales in their home market, or when they believe investing overseas will bring forth higher incremental returns than additional investments at home, owing inter alia, to logistical convenience, growth prospects in the host country market or in third country markets which could be served by the host country due to some form of preferential treatment. This is often the case with high technology goods. The primary research undertaken through the survey attests to the intuitive outcome – size of the host

Exhibit 19: Market Seeking Radar Graph



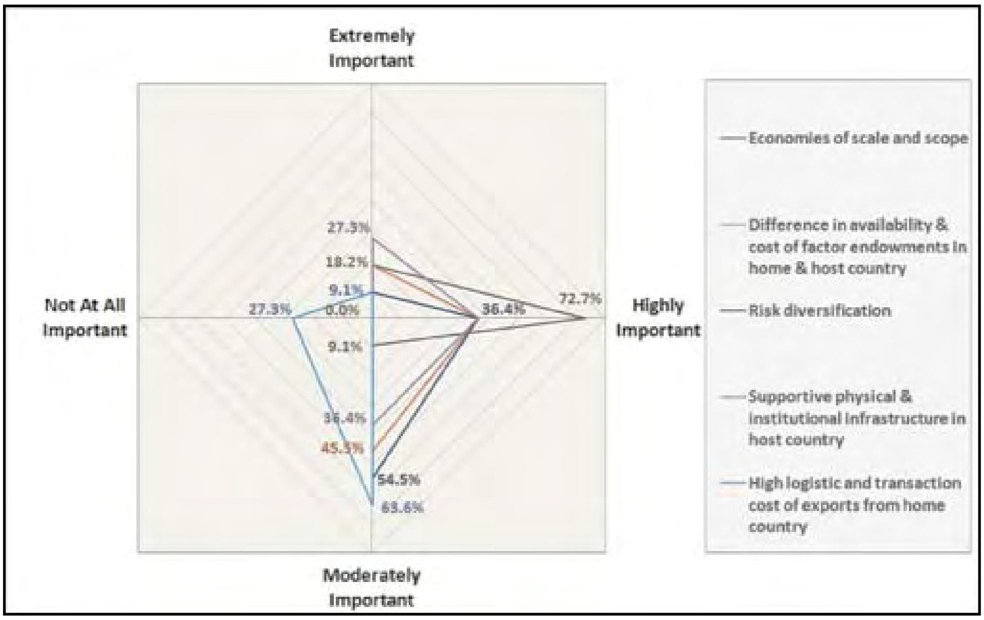
Source: EXIM Bank Research

country market is the most important factor influencing investment decisions overseas under the Market Seeking objective – 36 per cent and 54 per cent of the respondents rate it as extremely and highly important reason, respectively for their investment decision. The other major motives impacting overseas investment decisions are also on the expected lines – growth prospects/potential of host country market and access to third country markets (capitalising upon preferential /free trade agreements or geographical proximity). Also, as anticipated, saturation in the home market is not really an important criteria in the decision making process (54 per cent respondent rated it only as moderately important) which is understandable given the size of the Indian economy and the stage of development it is at. Anecdotal and empirical evidence as was brought to light in the previous chapter through analysis of real-time data from fDi Markets attests to developed economies like USA and UK being among the major recipients of India's overseas direct investments. Apart from the sheer size of these developed-country markets, some overseas investments are undertaken to get around trade barriers or avoid high transport costs for bulky goods and, more commonly, to adapt products or services to the requirements of customers. This is evident in the findings of the survey as well with 'adapting to local tastes, resources and capabilities' and 'physical presence in country of main suppliers or customers' also emerging as important decision making parameters. However, an interesting point to note is that competition from either foreign companies or domestic manufacturers within the country figures among the least important factors within the market seeking objective.

Efficiency Seeking

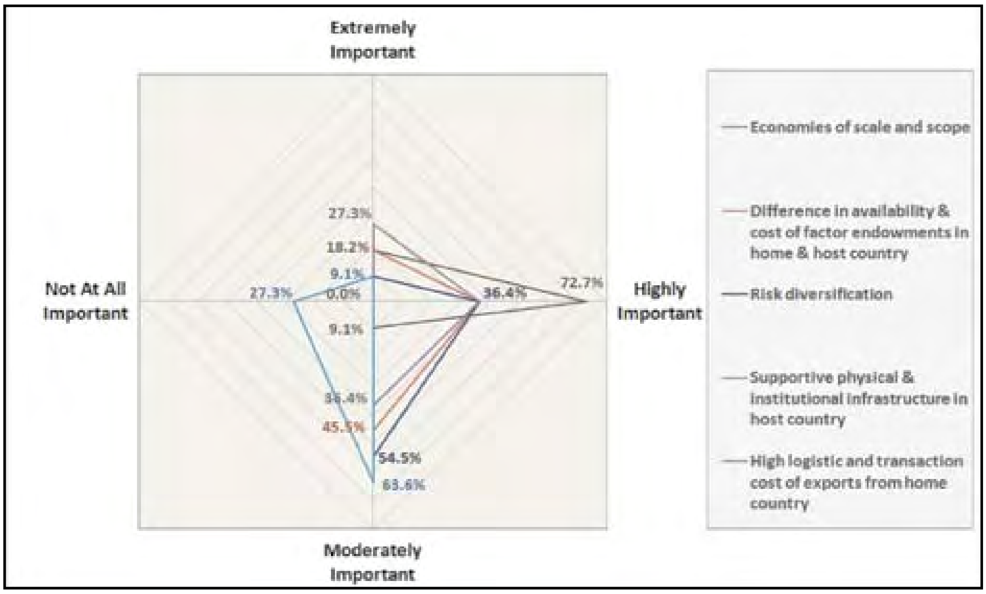
Most firms investing abroad also look to reorganize their overseas holdings in response to broader economic changes. While typically, efficiency-seeking would mean low-cost labour, for Indian TNCs, efficiency means primarily the synergies to be gained through the international integration of production and service activities, rather than low-cost inputs. At times, efficiency-seeking Indian companies set up integrated production centres based on business strategies aimed at optimizing the configuration of their production processes by moving production to locations that offer significant advantages in terms of infrastructure and scale economies. Within the broad objective of efficiency seeking, survey results indicate that 'economies of scale and scope' and 'supportive physical and institutional infrastructure in host country' are important metrics that have influenced overseas investment decisions of Indian companies with 18 per cent

Exhibit 20: Efficiency Seeking Radar Graph



Source: EXIM Bank Research

Exhibit 21: Strategic Asset Seeking Radar Graph



Source: EXIM Bank Research

and 27 per cent of respondents, respectively indicating these as extremely important criteria. However, high logistic and transaction cost of exports from India do not significantly impact investment decisions with predominant responses indicating it as either being moderately important (63 per cent) or not important at all (27 per cent).

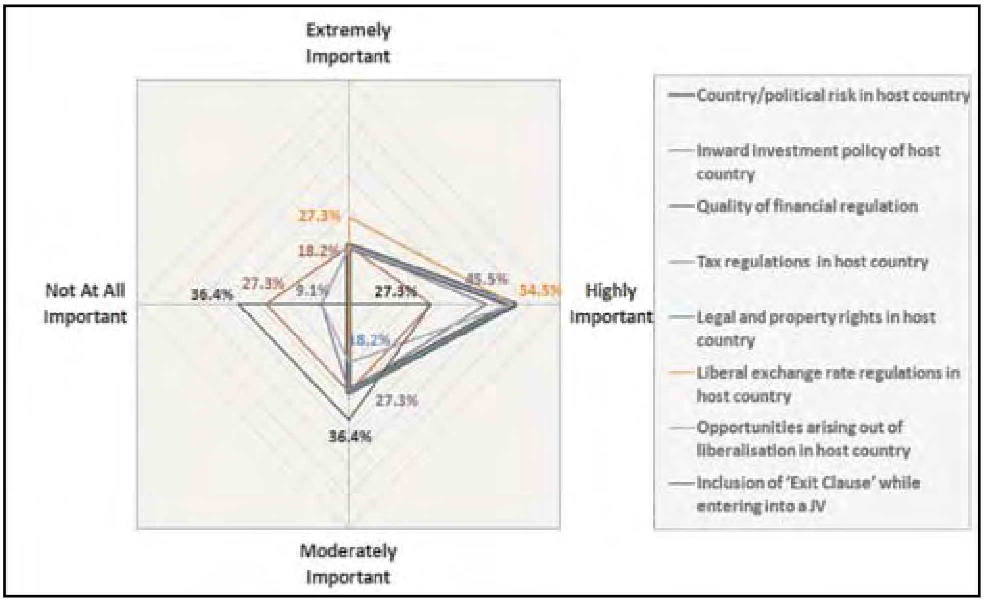
Strategic-Asset Seeking

Strategic asset-seeking motives of TNCs especially from countries insufficiently bestowed with key natural resources such as India, have led them to invest in locations determined not by regional proximity, but by the availability of resources. Thus, many Indian companies in oil and gas are drawn to relatively untapped supplies in regions such as Central Asia, Africa and Eastern Russia. Similarly, many companies in the mining and extraction sector such as coal, iron ore, copper have also been investing across continents, especially in resource endowed countries like Australia and Indonesia. In addition, firms have also invested abroad to help build strategic assets, such as distribution networks or new technology. This may involve the establishment of partnerships with other existing foreign firms that specialize in certain aspects of production and could also include acquisition of global portfolio of physical assets and human competence; and promotion of long-term strategic objectives such as sustaining or advancing global competitiveness, access to new product lines, attractive pricing of target company/brand, and increased willingness to take risk. The results of the survey corroborate these findings with 45 per cent respondents rating access to new product lines as being extremely important while 36 per cent of the respondents each indicating 'acquisition of global portfolio of physical assets and human competence' and 'attractive pricing of target company/brand' as being extremely important criteria in their overseas investment decisions.

Host Country Policies

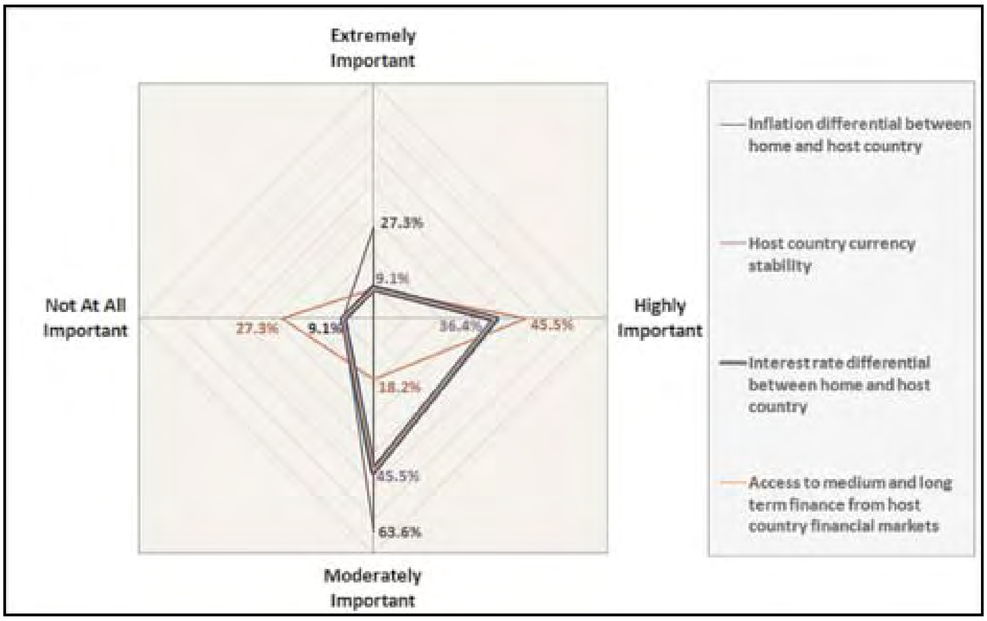
Host country government policies are a major determinant for any company planning to invest overseas. The major factors that are known to affect the chances of any country in attracting direct investments and benefiting from it include a good macroeconomic environment, stability (political, social and economic), an effective legal framework and the rule of law, and the capacity of the host economy and its domestic enterprises to absorb benefits from such direct investments. This is evident even in the response to the survey which highlights the significance of the metrics that affect the overall attractiveness of an economy in terms of catching the attention of overseas

Exhibit 22: Host Country Policy Radar Graph



Source: EXIM Bank Research

Exhibit 23: Other Macroeconomic Parameters Radar Graph



Source: EXIM Bank Research

investors. However, a very interesting point that emerges from the survey is the significance accorded by Indian companies to the liberal exchange rate regulations when making outward investment decisions – 27 per cent of the respondents rate this metric as extremely important. On the contrary, inclusion of 'Exit Clause' while entering into a joint venture with the overseas entity does not appear to have significant impact on investment decisions with very few respondents rating it as an important criteria in the decision making process.

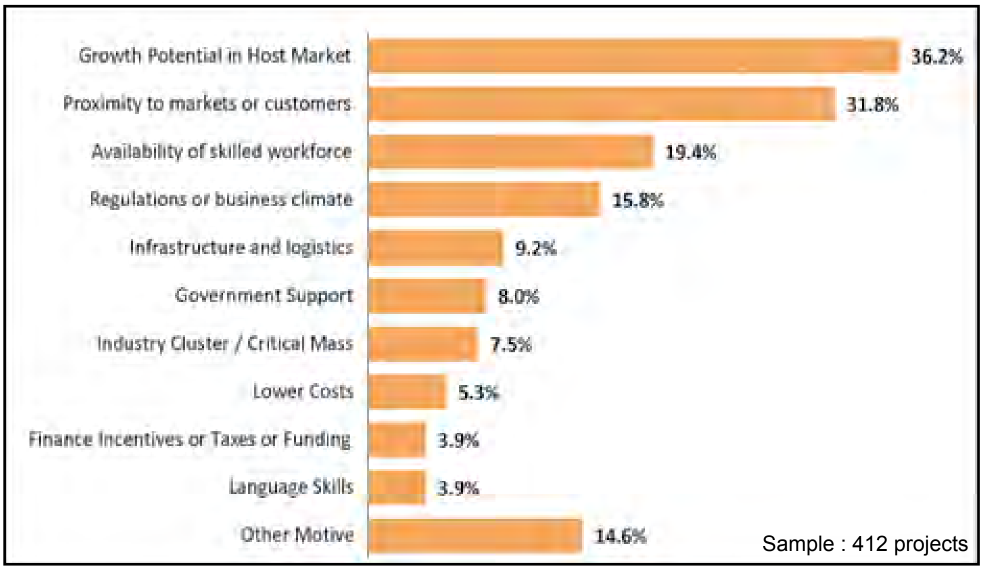
Other Macroeconomic Considerat-ions

Though this category may not be of primary importance to investors abroad, but it does play a role in influencing business decisions. Primary research shows that host country's currency stability is considered fairly important by Indian companies as also the inflation differential between home and host countries.

A Holistic View on Key Determinants of Indian ODI

While the earlier sections discussed the metrics that impacted Indian companies' overseas investment decisions, those metrics were at a granular level and based entirely on the primary research undertaken by EXIM Bank. In order to get a more holistic and a broader picture of the parameters and motivations that

Exhibit 24: Top Location Determinants: Percentage of Projects Citing Investment Motive



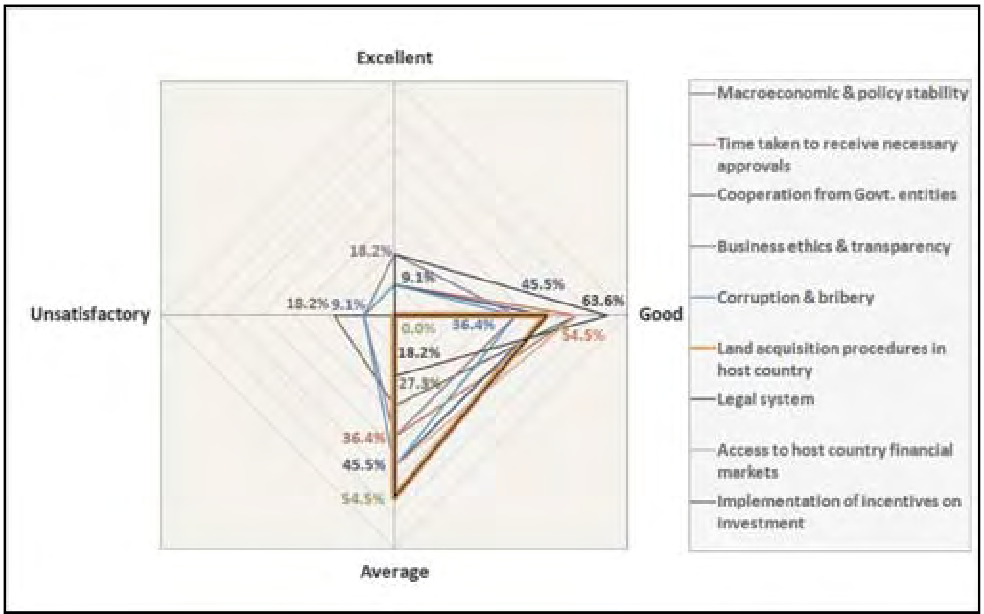
Source : fDi intelligence, EXIM Bank Research have influenced Indian companies to venture overseas, it is desirable that these granular level metrics are consolidated at a broader level and buttressed by empirical data on actual investments so as to pin down the key determinants of Indian direct investments abroad. For assessing this, real time data from fDi intelligence has been used.

According to this, between January 2003 and December 2012, a total of 2,850 overseas FDI projects were recorded by Indian companies, equating to a 1.9 per cent share of global FDI. These projects represented a total capital investment of US$ 233 bn, implying an average investment of US$ 82 mn per project. In terms of project type, 89.4 per cent of projects were new greenfield investments which had an average capital investment of US$ 780 mn. If the motives of these investments made by Indian companies are clubbed with the motives as sighted by the primary research undertaken by way of the survey by EXIM Bank, certain broad parameters emerge as key determinants. Based on this, the motives for investment were cited by companies for 412 projects and the key reasons for overseas investments that emerges are potential for growth in the host country market (with 149 projects or 36.2 per cent of Indian overseas investment projects citing this as the reason), proximity to markets or customers (131 projects or 31.8 per cent) and availability of skilled workforce (80 projects or 19.4 per cent), in that order. The results indicate that Indian ODI during the last decade or so has predominantly been driven by market seeking motivation. This is also corroborated by actual investments being primarily in larger markets like USA and UK, where investments by Indian companies have also been undertaken for reasons beyond just market seeking motive.

POST-INVESTMENT CONSIDER-ATIONS

As set out in the beginning of this chapter, this study has also attempted to capture the experience of Indian companies who have undertaken overseas direct investments, again based on qualitative parameters as emerging from the survey. Similar to the questionnaire designed for the pre-investment considerations, this survey was also based on a 4-point semantic scale – Excellent, Good, Average and Satisfactory. While the earlier survey results were a priori, the findings of this survey are posteriori, intended to depict the experience of Indian companies after having invested abroad. Like the pre-investment survey, there were broad parameters that were then sub-divided into granular metrics to

Exhibit 25: Radar Graph: Institutional Efficiency and Bureaucracy in Host Country



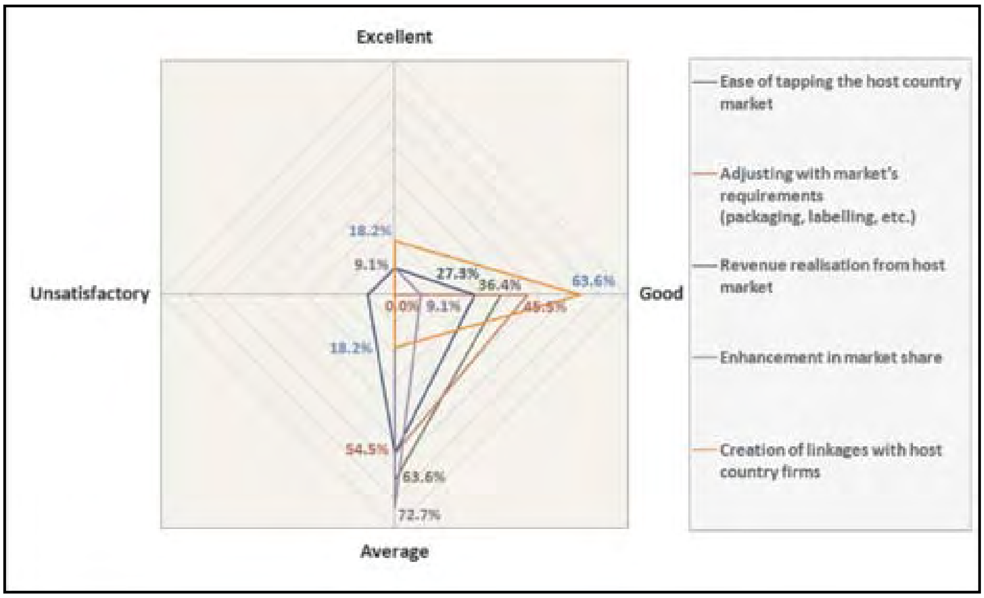
Source: EXIM Bank Research

get a feel of the experience of Indian firms in their overseas expeditions. These are discussed in the following sections.

Institutional Efficiency and Bureaucracy in Host Country

Institutional efficiency coupled with the bureaucracy in the country of investment is critical for the continuation of any successful venture. Institutional efficiency would typically be embodied in the ease of doing business in the host country market. It includes a broad range of endogenous and exogenous factors that have a bearing on the investment undertaken by an overseas firm, including regulations and incentives that could potentially influence the performance of such investments already undertaken. Institutional efficiency and bureaucracy may also affect the organizational choice for the deployment of the ownership advantages of a firm. As such, the host country's policy toward the foreign ownership of assets may also influence the decision as to whether a firm should deploy its assets without any fear of causing loss in the future. Responses received from Indian companies who have invested abroad shows that the experience of these firms was good in terms of the legal system and business ethics and transparency of the host countries

Exhibit 26: Radar Graph: Market in the Host Country



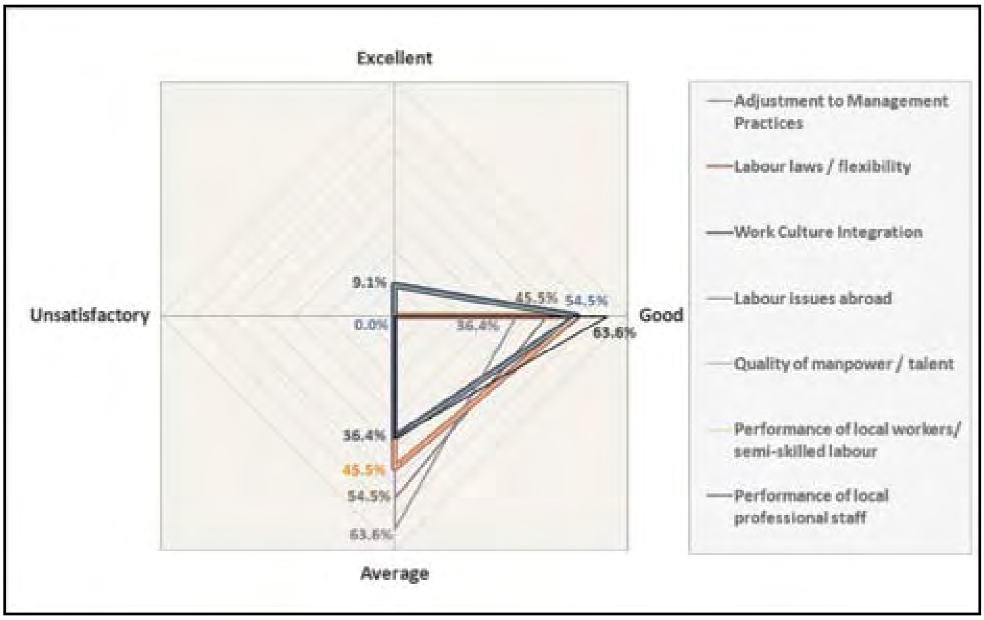
Source: EXIM Bank Research

with a majority of them rating these metrics as either excellent or good. This result is also intuitive considering that most of the investments by Indian companies during the last decade have been in the relatively developed markets where such systems are well built and robust. However, certain concerns pertaining to the macroeconomic conditions were indicated – perhaps because of the contagion of the global financial crisis and the ensuing Eurozone crisis.

Market in the Host Country

As was brought to light in the preceding section, the endeavour of Indian firms in their overseas expeditions has largely been with the motive of tapping host country markets. But the moot point is whether the host country market has lived up to the expectations of Indian firms. While this may be difficult to gauge, the survey attempted to capture it by including granular metrics such as ease of tapping the host market, revenue realisation from the market, adjusting to market's requirements (packaging, labelling, etc.), creation of linkages with host country firms and augmented market share. The response to the survey reveals that Indian companies have rated the experience of having created linkages with host country firms as being most satisfactory followed by revenue realisation, thereby corroborating the fact that the Indian firms in the

Exhibit 27: Radar Graph: Human Resource in Host Country



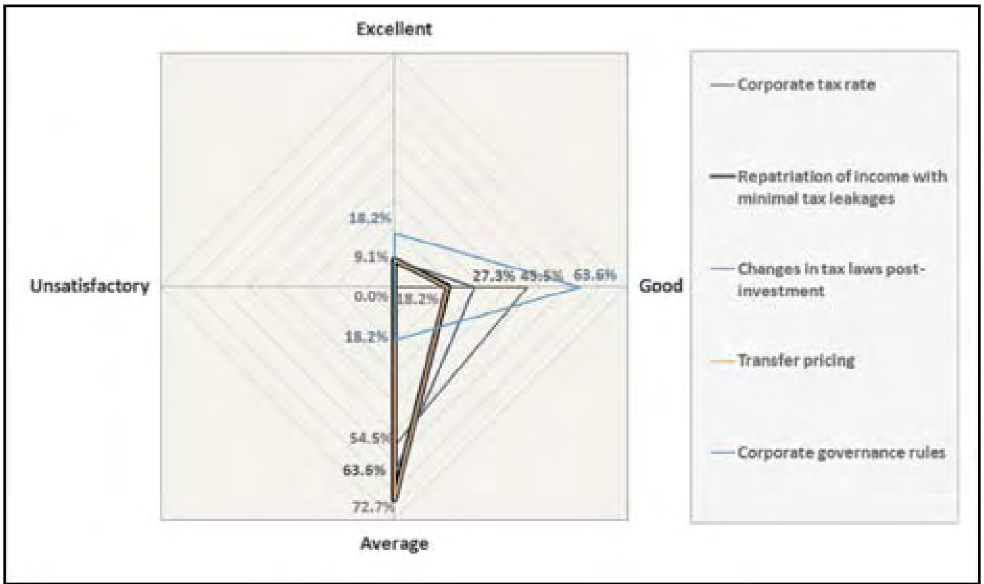
Source: EXIM Bank Research

host country have been able to forge linkages with businesses overseas successfully - this may either be in the front-end or back-end. Firms also witnessed an enhancement of their market share which is a positive reflection of their decision to go abroad, albeit a rudimentary measure of their success.

Human Resource in Host Country

Integration and alignment of human resources in an overseas venture, especially if it is in the form of mergers and acquisitions (M&A), is crucial for a successful venture. While financial synergy is the number-crunching aspect of M&As, the aspect that gets overshadowed, and which is perhaps far more significant is people synergy. There are a host of issues that are involved both in the quantitative form (rules and regulations) and qualitative form (quality and structure). Surprisingly, the response to the survey shows that most Indian firms had a smooth sailing with experience related to work culture integration and quality of manpower/talent being rated either as excellent or good by most companies. Even more interesting fact was that very few respondents have rated their experience in any of the seven metrics under the parameter 'Human Resources in Host Country' as being unsatisfactory. This again could be assumed as a crude indication of the success of Indian overseas expositions.

Exhibit 28: Radar Graph: Policies in the Host Country



Source: EXIM Bank Research

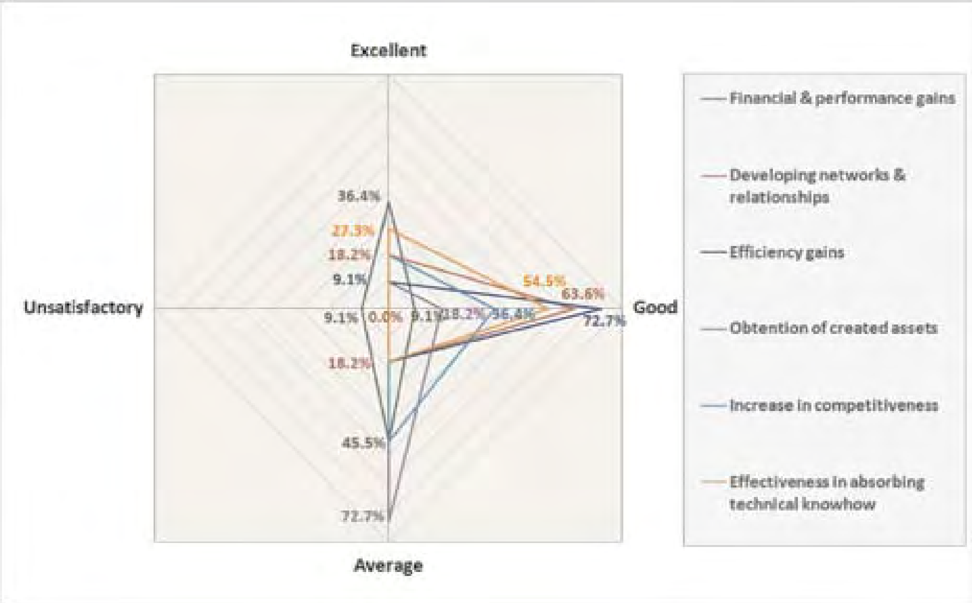
Policies in the Host Country

There have been instances of late wherein policies in the host country changes suddenly after substantial investments have been done as a long term strategic investment. But due to sudden revoking of certain policies, continuing business in the host country not only becomes difficult but also untenable. Some of these critical policies that may create an impact are corporate tax rate, repatriation of income with minimal tax leakages, changes in tax laws post-investment, transfer pricing, and corporate governance rules. Here again, experience of Indian companies has been by and large favourable. This is especially so in terms of metrics like corporate governance rules, with an overwhelming proportion of the sample being quite pleased with their experience. Again, the outcome appears rather instinctive given that most of the actual investments by Indian companies have been in the developed country markets where such rules are fairly well established.

Impact on the Parent Company

After a suitable gestation period firms tend to analyse the impact of the investment done overseas on the parent company. Though due diligence is always carried out with projections in place before the transaction is carried out, firms tend to assess whether they have been able to achieve the targets set out before the

Exhibit 29: Radar Graph: Impact on the Parent Company



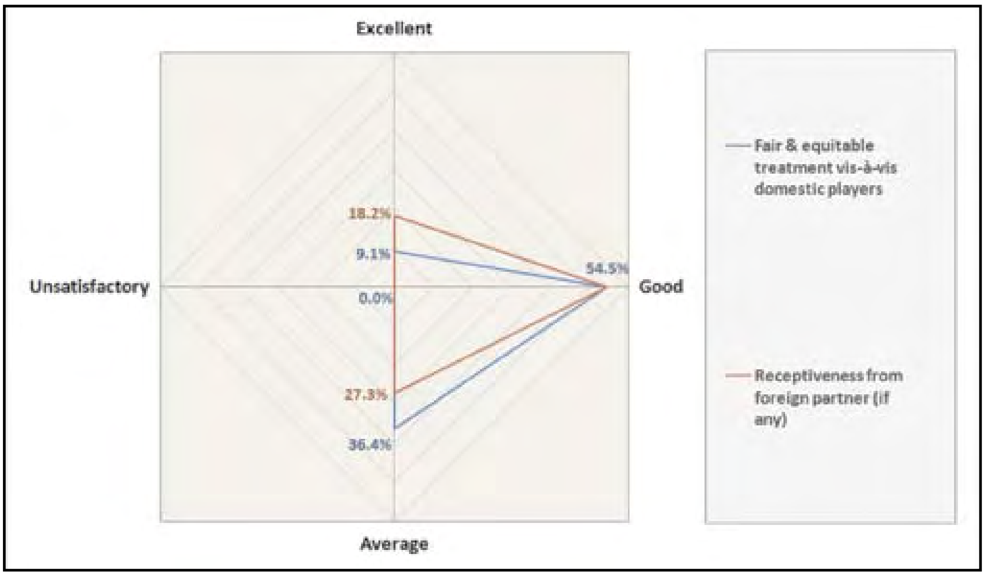
Source: EXIM Bank Research

investment was undertaken. While the survey results undertaken by EXIM Bank projects that the overall impact of overseas direct investment on the parent company has been mixed with quite a few respondents terming the experience either as being excellent or good, when it came to financial and performance gains, only 9.1 per cent of the respondents indicated their dissatisfaction. However, other metrics like developing networks and relationships, increase in competitiveness, and effectiveness in absorbing technical knowhow, elicited favourable responses with Indian firms indicating having reasonably achieved those.

Treatment in the Host Country

While undertaking any business overseas, especially when investing abroad either in the form of a joint venture or a merger / acquisition, treatment meted out to the foreign firm/ partner in host country assumes great importance. A perception biased, if any, against any particular firm, either because of their origin, or their area of doing business could cause significant damage to the firm's capability of running its business successfully. Primary research from the sample survey indicates that fortunately, this has not been the case with any of the Indian firms who have invested overseas, with nearly all of

Exhibit 30: Radar Graph: Treatment in the Host Country



Source: EXIM Bank Research

them indicating fair and equitable treatment vis-à-vis domestic players.

SUM UP

While the first wave of Indian overseas direct investments in the pre-liberalization era was made by a handful of firms and concentrated largely in Asian and African developing countries, the second wave of Indian ODI, in terms of real investments (and not just flow of funds, captured by RBI data) – especially since 2000 – has been in developed countries. An analysis of such investments undertaken during the last decade or so, based on both primary and secondary data has revealed that the key determinant of Indian firms' overseas investment has been essentially to tap the host country markets, i.e. such investments have been market-seeking. Research undertaken by EXIM Bank further reveals that the experience of Indian firms in their overseas exposition has by and large been fairly satisfactoy with most of the metrics revealing a favourable response. Although it may be rather rudimentary to conclude with full conviction from the survey data, it does indicate a certain amount of positivity in terms of the success rates of Indian firms' overseas expeditions. More research remains to be done on the post-investment success rates of Indian firms' overseas acquisitions.

5. EXIM BANK'S SUPPORT TO INDIAN OVERSEAS INVESTMENT: SELECT INSIGHTS

Export-Import Bank of India (EXIM Bank) has been playing a pivotal role in supporting Indian direct investment abroad ever since its inception. The Bank has been involved in supporting a host of expeditions of Indian entities overseas through its Overseas Investment Finance (OIF) program. The firms facilitated by the Bank across geographies and sectors, envisaged to access new markets and access technologies, thereby enhancing their competitiveness in the global arena. The Bank has been offering financial assistance covering the entire cycle of Indian investment overseas, including, the financing requirements of Indian joint ventures (JV) and wholly owned subsidiaries (WOS). This section provides select insights of the Bank's experience in supporting the expeditions of Indian entities in overseas markets.

Introduction

A barometer for success of any firm in these days of global integration is the extent of its footprints worldwide, more so in the context of an emerging country environment. Recognising this and in an endeavour to encourage and support Indian firms in their quest for globalisation, Export-Import Bank of India (EXIM Bank) laid the foundation of its innovative financing programme – Overseas Investment Finance (OIF) – during its formative years itself. Over the years, the programme has evolved into a key instrument for creation of trade through overseas investments with the underlying objective being to assist Indian firms to organize production optimally to serve regional or global markets. The larger objective being subserved by the programme includes providing a framework for firms to approach global networks by enabling them to access technology or market as strategic responses to tap the emerging opportunities worldwide for trade in goods or services, thereby improving the image of Indian industry abroad.

Over the years, EXIM Bank has enhanced the scope of its OIF programme. It, today, operates a comprehensive programme tailored to meet the financing needs, particularly of outward oriented small and medium enterprises (SMEs), recognising their need for constant reassurance and support. The OIF programme, in its present form, seeks to cover the entire cycle of Indian investment overseas, including the financing requirements of Indian Joint Ventures (JV) and Wholly Owned Subsidiaries (WOS) with a suite of financing instruments, besides the pre-and-post-investment advisory services. These include term loan towards equity of Indian company (promoter funding); multi-currency option for term loan towards Indian promoter's loans to overseas JV; term loan or working capital directly to JV; and direct minority equity participation in overseas JV (on select basis). While finance is available for all kinds of overseas investments including greenfield projects, brownfield expansion and overseas acquisitions directly or through special purpose vehicles, advisory services offered include furnishing of analytical information, partner identification, feasibility studies and advise to Indian corporates on structures, review, due diligence. EXIM Bank's OIF programme has today developed into a major institutional support mechanism for promoting Indian investments abroad. These investments have a wide geographical spread spanning across continents and are also diversified across varied sectors.

EXIM Bank's OIF Programme

The factors driving investment decisions by multinational corporations are changing. Some insights to this end have been highlighted in the earlier chapters. When seeking business opportunities, companies are now more concerned about financial and political risks, with a focus on stable and predictable business environments. In response, governments everywhere recognize that their chances of attracting more foreign investment depend on making their investment climates more competitive.

An empirical analysis of the overseas investments supported by EXIM Bank reveals that most of the assisted deals have been primarily guided by market rationality. It was observed that the strategic rationale for an acquisition that creates value typically conforms to at least one of the following motives:

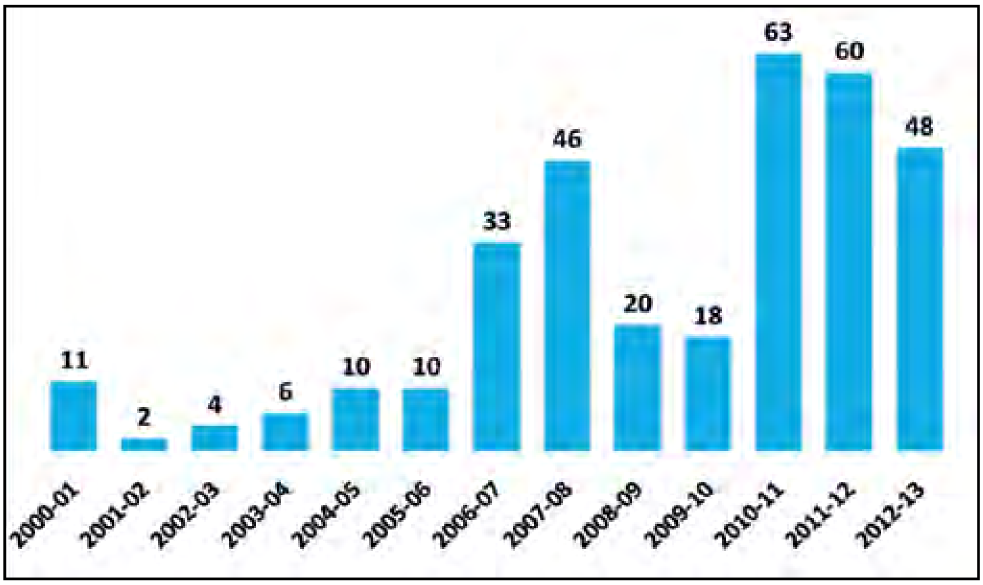
- Creating market access for products;
- Acquiring skills or technologies more quickly or at lower cost than they could be built in-house;
- Picking winners early and helping them develop their businesses by improving their performance; and

* Seeking raw material (backward integration).

On the whole, the analysis revealed no specific scripted formula to make acquisitions successful with each investment being done with a strategic logic. This was perhaps because of the wide variety of types and sizes of direct investments supported by EXIM Bank. Firms in the case of highly successful overseas investments have specific, well-articulated value creation ideas as key reasons for their ventures aboard. For relatively less successful deals, the key reasons of not being able to live up to the desired expectations have either been changing macroeconomic environment or a glut in inventory.

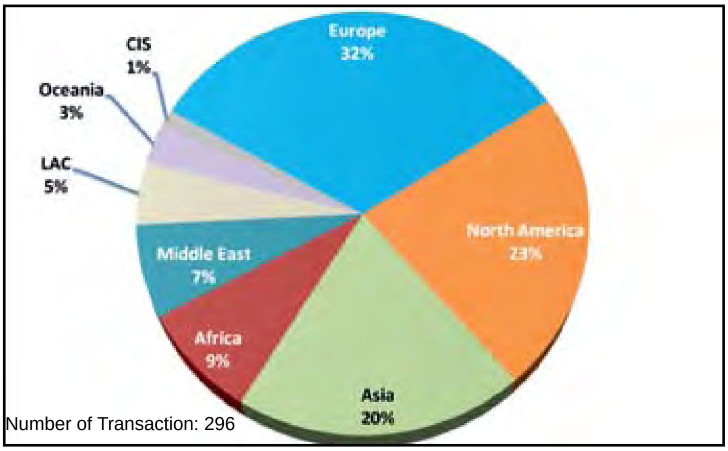
EXIM Bank's support to Indian entities in their expedition overseas has increased significantly in the recent past. The Bank has supported over 460 ventures set up by more than 370 companies in 79 countries since the inception of the OIF program. The aggregate assistance for overseas investment amounted to Rs. 327.63 bn. During the six year period between 2000-01 and 2005-06, while the Bank was involved in supporting 43 overseas direct investment transactions, the Bank assisted 33 such transactions in 2006-07 alone. In the following year (2008-09), EXIM Bank increased this tally to 46. However, the global financial crisis which emanated in 2008-09 had an adverse impact on

Exhibit 31: Number of Overseas Investments Assisted by EXIM Bank: 2000-01 to 2012-13



Source: EXIM Bank Research

Exhibit 32: EXIM Bank's Regionwise Exposure in Overseas Funding (Numberwise): 2000-01 to 2012-13



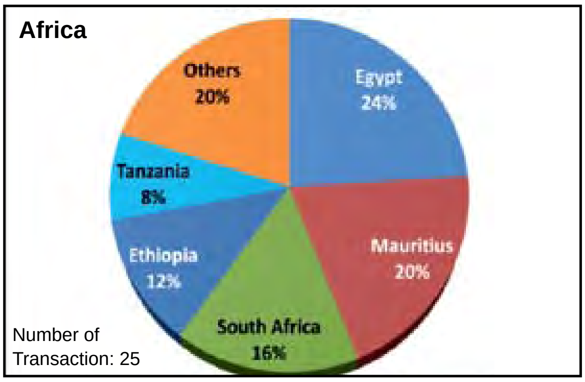
Source: EXIM Bank Research

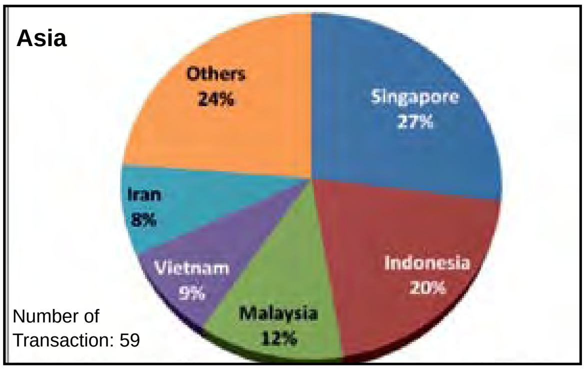
Indian firms' overseas endeavours. At its own behest, EXIM Bank also took a cautious approach in supporting overseas transactions. This was reflected in the number of such transactions supported during that year which was also carried over to the following year (2009-10). However, with the economic crisis having subsided, the last 3 financial years gained a lot of traction with substantial increase in the offtake of the Bank's OIF programme. The years 2010-11 and 2011-12 witnessed the number of assisted entities touching 63 and 60, respectively. Given the domestic market conditions during 2012-13, overseas transactions supported by the Bank exhibited some moderation but was still higher than the pre-2007-08 period.

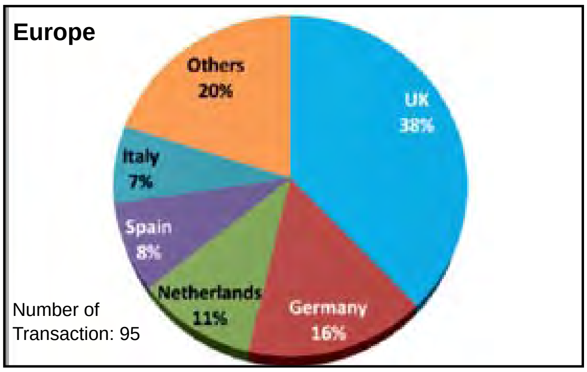
EXIM Bank's OIF portfolio is well diversified and spread across geographies. A region-wise analysis reveals that more than half the number of investments supported has been to Europe and North America (cumulative share of 55 per cent). This was followed by Asia with a share of 20 per cent, and Africa (9 per cent), Middle East (7 per cent), and LAC (5 per cent). Within Europe, UK was the leading destination followed by Germany. In the Asian region, Singapore and Indonesia were the key destinations. Investments into Africa were diversified with key countries where EXIM assisted companies have taken an exposure being Egypt, Mauritius, South Africa and Ethiopia.

Like its geographical spread, the Bank's sectoral exposure to supporting overseas direct investments has also been fairly diversified. A bulk of these investments has been in the manufacturing sector such as

Exhibit 33: EXIM Bank's Countrywise Exposure in Overseas Funding (2000-01 to 2012-13)



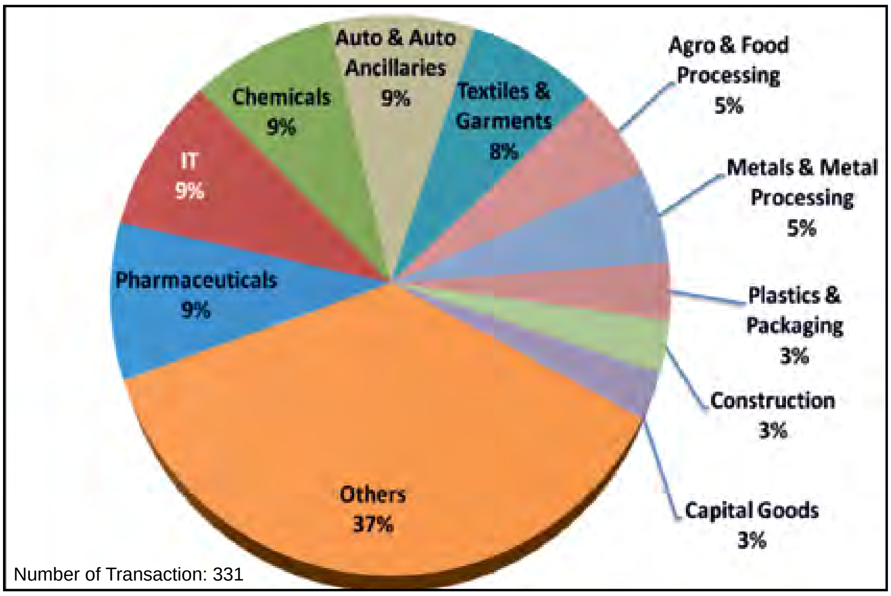




Source: EXIM Bank Research

pharmaceuticals, chemicals, auto and auto ancillaries. EXIM Bank has also been at the forefront in supporting IT firms to venture overseas. Sector-wise analysis in select regions shows that EXIM Bank's support to investment in chemicals sector has been across the regions – Africa, Asia, Europe, Latin America and Caribbean (LAC), and North America. An interesting point emerges by analysing EXIM Bank supported ODI from a region-sector perspective – i.e. the top sectors of EXIM Bank supported ODI bear a strong correlation to the major products exported by India to that region. For example, one of India's key exports to LAC is pharmaceuticals – a sector which incidentally also tops in terms of EXIM Bank support for ODI to that region. Thus, it can be deduced that market-seeking has been one of the key motives for overseas acquisition of companies supported by EXIM Bank. Similarly is the case of Europe, textiles and garments is the major sector supported by EXIM Bank for ODI; and Europe is the largest market for India's exports of textiles and readymade garments.

Exhibit 34: EXIM Bank Supported ODI: Sectoral Breakup: 2000-01 to 2012-13



Source: EXIM Bank Research

Outward investment by Indian companies has been through both organic as well as inorganic routes. Under its OIF programme, the purpose of the loan is of paramount importance while taking a credit decision since it is directly related to debt servicing. The Bank's experience has shown that acquisition of overseas companies has been the primary form of EXIM Bank supported overseas investment, accounting for nearly 46 per cent of the Bank's OIF portfolio in value terms. Support for greenfield facility or brownfield expansion comes next with a share of 25%. Participation in Equity or Mezzanine Debt accounted for 8% of the OIF portfolio. EXIM Bank has also helped Indian corporate to tap overseas bond market by giving credit enhancement like guarantees. This helps Indian corporate to raise money from overseas market and at finer prices.

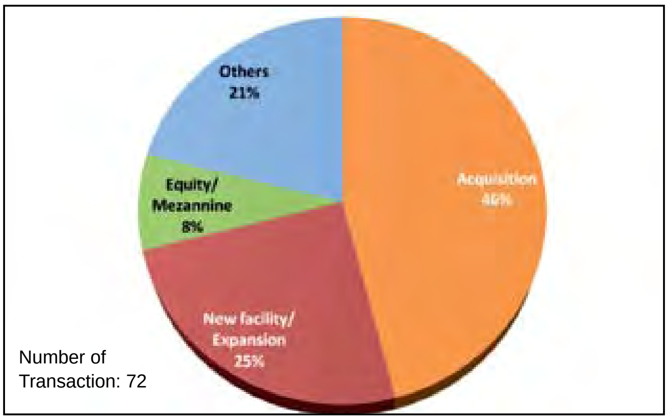
Clarity in the strategic motive of overseas expedition by Indian companies has a major role in EXIM Bank's loan appraisal process as it gives clear picture of corporate strategy and requirement of funding. Based on the Bank's experience, forward integration has been the primary strategic motive behind Indian corporate' overseas ventures. This is reflected in the fact that around two-third of EXIM Bank's OIF portfolio had market seeking as the main reason for

Table 3: Region and Sector Matrix (Top 5 sectors) of EXIM Bank supported ODI

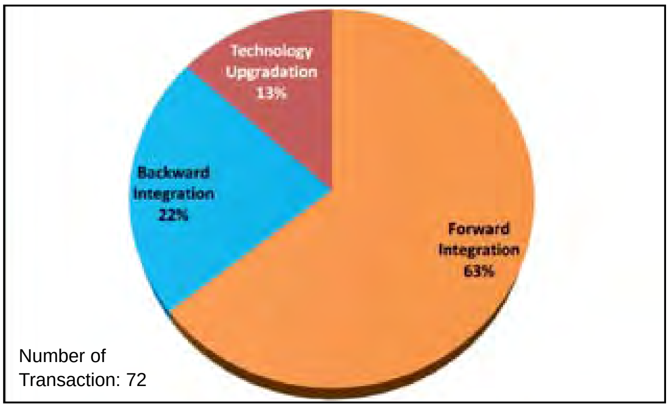
AFRICA		ASIA		EUROPE		LAC		NORTH AMERICA	
Chemicals	28.0%	Agro & Food Processing	11.9%	Textiles & Garments	14.7%	Pharmaceuticals	28.6%	Info. Technology	24.6%
Plastics & Packaging	16.0%	Chemicals	8.5%	Auto & Auto Ancillaries	14.7%	Auto & Auto Ancillaries	14.3%	Pharmaceuticals	13.0%
Metals & Metal Processing	8.0%	Shipping & Ship Breaking	6.8%	Pharmaceuticals	10.5%	Engineering Goods	7.1%	Auto & Auto Ancillaries	13.0%
Agro & Food Processing	8.0%	Paper & Paper Products	5.1%	Chemicals	9.5%	Shipping & Ship Breaking	7.1%	Textiles & Garments	5.8%
Info. Technology	8.0%	Capital Goods	5.1%	Info. Technology	6.3%	Power	7.1%	Chemicals	2.9%

Exhibit 35: Loan Extended by EXIM Bank: Purpose and Motive of Companies (2002-12)

Purpose of Loan



Strategic Motive of Companies availing Bank's OIF Programme



Source: EXIM Bank Research

availing of the Bank's debt. Backward integration was the major reason for 22% of the corporate supported by EXIM Bank under its OIF programme. These firms were largely from capital intensive sectors such as steel, oil and gas exploration, and power generation. Technology upgradation was a strategic motive for 15% of corporate supported by EXIM Bank for outward investments.

The SPV structure is among the most prominent forms in which overseas investments are being undertaken by Indian firms. This helps them achieve tax effective corporate structures. SPV in most of the cases is created for the Holding of the final operating company. Interestingly, of the firms supported under EXIM Bank's OIF programme for acquisition of overseas company, around two third of the Indian corporate entities preferred to have SPV in non operating country – that is SPV has just existed for the acquisition as a holding company of final operating companies. Apart from acquisitions in USA, all the other investments in Europe or Asia are mostly routed through third country which has tax efficient structures. EXIM Bank supported companies which have invested in USA generally preferred to form intermediate SPV in USA itself for funding investment. The most preferred non operating SPV location in EXIM Bank's OIF portfolio was The Netherlands followed by Singapore and Mauritius. Preferences of location of SPV by corporate depends upon the type of business, final location of business, and laws of the governing country. Countries like Cayman Islands, Virgin Islands, Cyprus have also been preferred by corporates supported by EXIM Bank to have their holding company providing them a tax effective company structure.

In Sum

There is a growing realization that the future growth of Indian companies will be influenced by the share that they can garner in the world market, not only by producing in the country and exporting, but also by acquiring overseas assets, including intangibles like brands and goodwill, to establish overseas presence and to upgrade their competitive strength in the overseas markets. EXIM Bank, through its OIF programme, has been at the forefront of promoting overseas investments. With enhanced focus and an enlarged scope received during the recent past, EXIM Bank has increased its support for overseas investments. These investments have facilitated trade creation, host country development and technology transfer. The Bank's experience shows that most of these investments have been in the form of acquisition and the primary objective has been market seeking. The overall experience of firms supported by EXIM Bank for ODI from India has been fairly positive in terms of those investments achieving their desired strategic objectives. Thus, for instance, while the primary motive of Indian corporates supported by EXIM Bank to invest in EU and North America was for accessing technology and seeking market, and in Africa to access strategic resources, experience has indicated that Indian firms were able to achieve the strategic objectives that they set out for while undertaking those investments.

6. INDIAN OUTWARD INVESTMENT: SOME POLICY PERSPECTIVES

This chapter elucidates select strategies that could enhance India's direct investments overseas. One of the key recommendations include creation of an institutional mechanism or an agency focused exclusively for promotion of outward direct investment from the country. This needs to be complemented by other strategies such as earmarking separate funds out of the country's foreign exchange reserves for promoting cross border investments, alignment of India's bilateral investment treaties with various countries from the perspective of both inward and outward FDI. Overcoming statistical discrepancy in order to ascertain the actual physical investment destination for facilitating policy actions is another suggestive area that has been highlighted.

Background

The preceding chapters enunciated the increasing trend in overseas direct investments by Indian enterprises, especially during the last decade. Unlike China, this surge in investment has been driven predominantly by the private sector. The rapid pace of economic development and relatively liberal market policies implemented by the government combined with offshore availability of market opportunities, entrepreneurial desire to expand to key international markets, and strategic intent to exploit competitive advantages in cost-effective manufacturing have been the catalyst for this development. Notwithstanding this trend, some observers opine that this outflow of capital may not augur well for India, considering that the country has perennially witnessed a deficit on the current account, save for a few years over the last two decades. This question merits a deeper understanding especially in the current context where high current account deficit (estimated at 4.6 per cent of GDP in 2012-13) is being considered as a major drag on the growth prospects of the Indian economy. While this would need further research and is beyond the scope of the current study, some assessment can be derived out of past research undertaken on the subject and buttressed further by anecdotal evidence and by the primary research undertaken by EXIM Bank, key findings of which were presented in the previous chapter.

There have been primarily two economic views pertaining to the possible impacts of ODI on the home country economic growth. One school of thought argues that if ODI is a substitute for domestic investment (e.g., domestic production that has been relocated abroad due to diminished domestic investment opportunities), an increase in ODI by home country firms could potentially cause a decrease in output at home economy[1]. On the other hand, if ODI is complementary to domestic production (e.g., Indian enterprises use home inputs to produce outputs in the host country), an increase in ODI activities by home country enterprises could promote higher domestic output[2]. While it may be naive to conclude either ways without further research, especially considering that most studies have been inconclusive on the impact of ODI on domestic investment, employment and exports, this study postulates to the latter view – that outward investment from a developing economy such as India needs to be actively promoted – notwithstanding the current scenario where the global economy is yet to recover from the financial meltdown and where India's current account deficit has reached record levels. The key findings of the study in an earlier chapter would also tend to support this view – where most enterprises cited sourcing of raw materials, access to technology and market seeking as prime reasons for their expeditions abroad, implicitly indicating, at least to a certain extent, that Indian ODI serves positively on national economic production and growth. Nonetheless, it is important to take a holistic approach by weighing in not just the economic benefits or losses but also geo-political impacts of outward investments.

It also needs to be noted that in an increasingly globalising world, firms can no longer rely merely on their home country markets as primary sources of their revenues. Competition from international enterprises has today become universal – through not just imports but also inward FDI and no-equity forms of participation. Such a scenario entails firms to remain internationally competitive – ODI is an important constituent of this requirement and a critical instrument for integrating Indian firms into

[1]Stevens, G.V.G. and Lipsey, R.E. (1992) Interactions between Domestic and Foreign Investment, Journal of Money and Finance

[2]Desai, M.A., Foley, F. and. Hines Jr., J.R. 2005 Foreign Direct Investment and Domestic Capital Stock. American Economic Review Papers and Proceedings

[3]Rabin Hattari and Ramkishen Rajan, India as a Source of Outward Foreign Direct Investment, Oxford Development Studies, Vol. 38, No. 4, December 2010

the global economy. ODI can help enterprises increase their revenues, assets, profitability, market reach and exports and avoid the one-sided globalisation of a developing country like India.

As noted by Hattari and Rajan[3], Indian firms that invest abroad help generate positive linkages with the rest of the economy by using Indian factors of production (management, construction, information, communication technology etc.) while also bringing back to India new technologies, brand names, export markets, and more. All of these have positive spillovers to India's GDP. Similarly, more ODI by Indian corporations could encourage greater levels of foreign investments into India too, as there is greater awareness and appreciation of India's potential and inherent strengths. Further, increased outbound investments could potentially facilitate the usage of soft power by effectively shaping host country policies for home country advantage. In addition, to the extent that overseas Indian corporates repatriate part of their profits or dividends back to the home country, India's GNP (a more relevant metric for national income) would rise, even if its GDP does not. In the case of India, during 2011-12, these factor incomes from ODI[4] were nearly US$ 2.5 bn, or roughly 0.5 per cent of total capital inflows during that period.

The positive impact of outbound investments have been empirically analysed by Pradhan[5] who infers a positive impact of Indian ODI on overall exports from the country as also domestic employment. He notes that Indian OFDI can contribute towards home country employment by generating additional demand for skilled manpower like supervisors, technicians, engineers, and R&D at the headquarter so as to manage their overseas affiliates and provide them consultancy and technical services. The impact of OFDI in a given period can have negative impact on home country employment due to its negative impact on domestic investment rate. However, when the overseas subsidiaries of Indian firms start expanding over time they are likely to have positive impact on domestic investment. Their increasing demand for raw materials, stores and spares, capital goods, technology and consultancy services from India would benefit the home country considerably and can create more domestic employment. Moreover, the returns from overseas subsidiaries like dividends and interests may also

[4]Calculated from India's Balance of Payment as the Credit item under 'Foreign Direct Investment Abroad-Equity'.

[5]Indian Multinationals in the World Economy: Implications for Development, Jaya Prakash Pradhan

enable Indian parent firms to expand in the long run leading to more employment opportunities.

This study also concurs with this view and believes that overseas investment endeavours will continue to contribute to revenue growth for Indian companies, and create employment opportunities in the long run. This trend is already apparent given that many Indian enterprises are earning a fair portion of their revenues from their investment overseas – a share which is likely to increase further, going forward. Set against this backdrop, it becomes important to devise a conducive policy regime which proactively facilitates and promotes overseas direct investments by the Indian private sector. This has been the case with countries like Singapore and China. Singapore declared 2004 to be the "year of internationalization", whereby the government implemented a range of measures to facilitate the international expansion of its public and private companies. China's "Going Global" strategy outlined in 2000, is among the most explicit policy initiatives taken by an emerging market to boost ODI. The Chinese 12th Five Year Plan, which covers the period 2011-2015, continues to stress the importance of "going global". A new goal has been set, viz. to achieve "balance" between outward and inward FDI, implying that there will be progress toward ODI equalling FDI by 2015. The main effort is therefore likely to be on promoting outward investment. In fact, there are a number of targets in place relating to ODI for the 12th Five-Year Plan period, including an annual increase in amount of 17 per cent per year to total US$ 150 bn by 2015[6].The Chinese strategy of promoting ODI therefore merits further discussion in order to provide key insights which could be suitably adapted in the Indian context.

ODI Policy Development: Perspective from China

China's approach toward promotion of overseas investment by its firms has undergone a sea change over the past decade and a half. Stepping into the new millennium, the Chinese government promulgated a series of regulations with policies of encouragement, approval and supervision. The government in fact metamorphosed from being a regulator to that of a supporter and provided key policy guidance to step-up endeavours of its domestic companies at outbound direct investments – from a policy regime that directly intervened in business

[6]The Central People's Government of the People's Republic of China, 15th May 2012, MOFCOM's 12th Five-Year Plan for utilization of foreign investment.

decisions and commanded business outcomes to a regime that now influences and directs the market at arms' length. There has been a change in policy focus from ODI amounts to ODI performance with the government outlining various measures to monitor the performance of Chinese overseas investments. Standards and procedures for the annual evaluation of ODI projects have been adopted. To get further insights and data on overseas investment opportunities, statistics systems for overseas investments were established.

Regulations relating to overseas investment by Chinese enterprises are governed by the 'Administrative Measures for Overseas Investment' (The Measures) released by the Ministry of Commerce (MOFCOM). The Measures create three categories of review for overseas investment based on the size of the proposed investment, with varying approval processes and documentation requirements for each category. Under the current regulatory structure, overseas investment requires the approval of MOFCOM and the National Development and Reform Commission (NDRC). The Measures create three tracks for review of proposed investments. The approval process and documentation requirements vary among the three categories.

MOFCOM approval at the national level is required for overseas investment projects:

- in countries without diplomatic relations with China;
- in specific countries or regions (the list of these countries and regions has not yet been published);
- involving investment by a Chinese party of US$ 100 mn or more;
- involving interests in multiple countries (or regions); or
- involving the establishment of Special Purpose Vehicles.

MOFCOM's provincial departments are responsible for reviewing overseas investment projects:

- involving investment by a Chinese party of US$ 10 mn or more, but less than US$ 100 mn;
- in the energy or mineral industries; or
- that need to attract other Chinese investors.

Review of proposed overseas investments of less than US$ 10 mn (which do not fall into any of the other categories above) are completed within three working days. MOFCOM reviews applications from enterprises directly controlled by central government and the provincial departments will review applications from local enterprises.

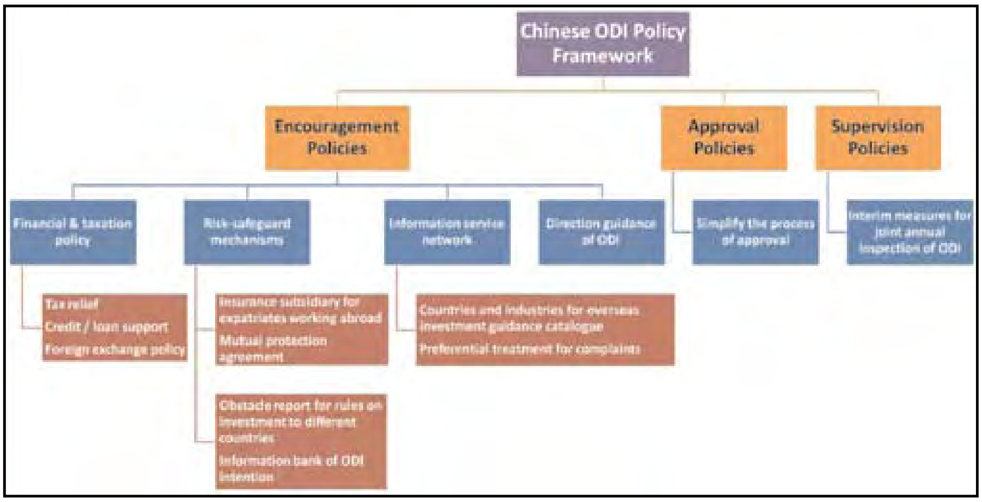
Overall, the policy regime created a facilitating environment in terms of simplified approval process, establishment of an information source concerning the overseas investment intentions of enterprises. Further, a guidance catalogue was issued by the government, with companies complying with the requirements enjoying preferential treatment in funding, tax collection, foreign exchange, customs and other parameters.

In addition to streamlining the policies, the Government of China also provides financial support to domestic firms investing abroad. General corporate income tax principles are used to avoid double taxation and a double taxation avoidance (DTA) treaty network has been set up to cover Chinese ODI. A notable feature of the Chinese network of tax treaties in recent years is its continued expansion. This trend reflects the shift of China's economy from primarily a recipient of foreign capital to one where outbound investment is increasing rapidly. As of October 2012, China had entered into 99 double tax avoidance agreements with other countries and regions including Hong Kong SAR and Macau SAR. Much of China's overseas investment lies in resource-rich parts of the world and China's recent treaties were often entered into countries in these areas. During the last few years, China signed DTAs with quite a few African countries, as for instance Egypt, Zambia and Botswana, and in South America, for example Brazil and Venezuela. The expansion of China's tax treaty network is likely to continue given the importance accorded by the Chinese Government to outbound investment by its domestic enterprises.

China has made inroads in the field of credit support too with the Government owned Export-Import (EXIM) Bank of China providing credit funds every year to support key ODI projects. These credit funds have low lending rates, fast approval processes, and flexible terms. In addition, the Chinese Export Credit Agency (ECA), viz. Synosure offers short-term export credit insurance and credit facilities as well as medium-and long-term insurance, and guarantee programs that are similar to those provided by ECAs of advanced countries, which are helping Chinese firms in a big way to penetrate in many markets that are difficult to do business otherwise. Further, in October 2004, China's State Development and Reform Commission and China EXIM Bank issued a circular to promote (1) resource exploration projects to mitigate the domestic shortage of natural resources (2) projects that encourage the export of domestic technologies, products, equipment, and labour (3) overseas R&D centres to utilize internationally advanced technologies, managerial skills and professional contacts, and (4) mergers and acquisitions that could enhance the international competitiveness of Chinese enterprises, accelerating their entry into foreign markets. The Government of China also provides subsidies for firms that are in the process of going abroad, under the notification issued by the Ministry of Finance and Ministry of Commerce on the "Measures for the Administration of Special Funds for Foreign Economic and Technology Cooperation". The scope of foreign economic cooperation as mentioned in these Measures includes: overseas investment, overseas agricultural, forestry and fishery cooperation, overseas project contracting, overseas labour services cooperation, establishment of overseas research and development platforms for high and new technologies, and overseas designing consultation, etc. The special funds support enterprises that engage in the aforementioned foreign economic and technology cooperation by providing direct subsidies or interest subsidies. Direct subsidies of the special funds subsidize relevant fees incurred before a domestic enterprise registers any overseas enterprise at the country where the project is located or concludes overseas economic and technical cooperation agreements (contracts) with any entity of the country where the project is located, for the purpose of winning the project. Such fees include: legal, technical and commercial consultation fees for engaging a third party, fees for compiling feasibility study report on the project, translation fees for regulative documents and bidding documents, fees for purchase of regulative documents, bidding documents and other materials, and operational fees for overseas labour services cooperation, overseas platforms for the research and development of high and new technologies, overseas designing consultation, etc.

"Interest subsidies" of the special funds subsidize medium and long-term loans from domestic banks incurred for projects such as overseas investment, cooperation, and project contracting, etc. According to the Notice, (i) the rate of interest subsidies for Renminbi loans shall not exceed the base interest rate as promulgated and implemented by the People's Bank of China; if the actual interest rate is lower than the base interest rate, the rate of interest subsidies shall not exceed the actual interest rate; and (ii) The annual rate of interest subsidies for loans in foreign currencies shall not exceed 3 per cent; if the actual interest rate is lower than 3 per cent, the annual rate of interest subsidies shall not exceed the actual interest rate.

Exhibit 36: Structure of China's ODI Policy Framework

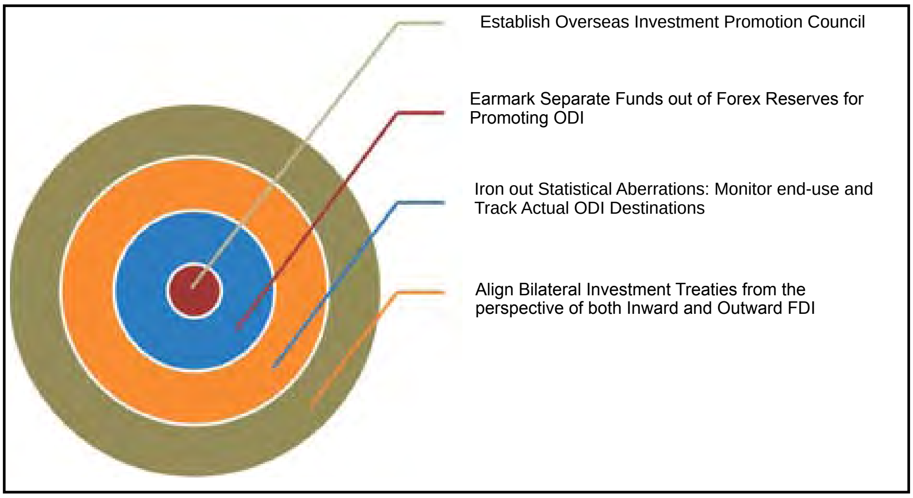


Source: Qiuzhi Xue and Bingjie Han – The Role of Government Policies in Promoting ODI from Emerging Markets: China's Experience

The Chinese Government also maintains a risk-safeguard mechanism with regards to outbound investment. The government has concluded ODI promotion and mutual investment protection agreements with over 110 countries and also provides personal accident insurance subsidies for expatriates working abroad.

To assist firms to overcome investment obstacles in host countries, the Chinese Government has made significant efforts to establish an information service network. Through the 'Obstacle Report Rules on the Investment to Different Countries', information on problems encountered by enterprises during the investment phase and while operating abroad is collected. The government then edits this and issues an annual 'Report on the Trade and Investment Environment in Different Countries'. In order to provide a platform for companies to communicate with each other, the government has developed an information system in which the investment intentions of Chinese enterprises are published. In addition, diversified associations such as the China Council for International Investment Promotion have been established to help companies that wish to compete in global markets. Thus, to put in a nutshell, the Government of China has set up a comprehensive policy framework composed of various encouragement, approval, and supervision policies that has, and will continue to stimulate Chinese overseas investment in future (see Exhibit 36).

Exhibit 37: Enhancing India's Overseas Foreign Direct Investments: Policy Framework



Source: EXIM Bank Research

Enhancing Indian Investments Abroad: Select Policy Options

Set against this backdrop, there is a need for having in place a set of policy guidelines and framework which could create an enabling environment for Indian enterprises to increasingly undertake direct investment overseas. This policy framework could take cognizance of what has been the experience of other countries (such as that of China as was spelt out in the previous section), taking a leaf from their policy regime and suitably adapting them in the Indian context. Essentially, the policy regime relating to outward investments needs to encompass (1) incentivizing direct investments by Indian enterprises; (2) streamlining administrative procedures (including decentralization of authority to local levels of government); (3) easing capital controls; (4) providing information and guidance on investment opportunities; (5) establishing systems for reducing political and other non-commercial investment risks; and (6) expanding bilateral investment agreements for investment protection.

Creation of an Institutional Mechanism / Agency for Promotion of ODI

While some of these measures are already in place, they need to be crystallised and brought under one umbrella. This is where establishing a specific institutional mechanism for promoting overseas investments by Indian enterprises merits a special attention. A separate division within the Ministry of Finance needs to be established – the Overseas Investment Promotion Council (OIPC) – for fast-tracking endeavours of Indian corporates to venture abroad. This Council should be the fulcrum of the policy mechanism with respect to cross border investments from India and should be fashioned as a one-stop shop for all policy guidance and issues related to outbound investments from India on an exclusive and proactive basis. Simultaneously, an emphasis to promote and support overseas direct investments from India is needed which would convey positive signals to the Indian business community on opportunities to invest overseas.

As was highlighted in the previous section, China has been particularly successful in promoting outward FDI as part of its firms' 'Going Global' strategy. Some cues could be suitably adapted from the country in the Indian context. Given this, the proposed OIPC could be envisaged as a nodal agency to undertake promotion of ODI activity in a proactive manner through a set of measures with a view to supporting Indian entities overseas investments, and enhance the potential for companies to benefit from ODI. Such measures could include developing a series of guidance documents, investment climates across potential countries, information on investment and trade-related laws and regulations, taxation policies, market conditions and industry opportunities for Indian companies, similar to what MOFCOM does for Chinese enterprises. In addition, OIPC could periodically undertake post-facto, survey based assessment on outlining the common problems encountered in overseas investments in those countries and regions. These information and advisory services could reduce research costs and investment risks for Indian companies. The guidance documents could also address the environmental and social dimensions of investment.

There are a host of institutions already functional in various developed countries which are at the forefront to support overseas direct investments from their respective countries by providing nuanced and tailored information-related services to their domestic firms. The mandate of each of these institutions however varies, with some providing information and technical assistance only, while others providing a palate of services from information and technical support, to finance and insurance.

Earmark Separate Funds for Promoting Cross Border Investments

Typically, while availability of finance, especially foreign currency, for funding outward investment may not be the real issues, the problem arises in terms of the cost of getting such finance. Most Indian enterprises, by and large, cannot take advantage of the availability of cheap finance from abroad. The rationale for raising capital (either as equity or debt) from abroad is the desire on the part of companies to tap low cost funds and broaden the shareholder's base. This also serves as a launching pad for future overseas operations such as opening of branches, acquiring assets abroad as well a expanding the business operations abroad. There has been a marked improvement in volumes, pricing and demand in the international bond markets but access to bond markets is largely restricted to investment-grade companies, which primarily includes several large public sector companies and few top-rated companies in the private sector.

India has witnessed a consistent accretion to its foreign exchange reserves ever since the days of liberalisation. While the notion of an optimal level of foreign exchange reserves may be rather nebulous, some indicators can provide a fairly reasonable assessment on the notion of optimality and whether the country is holding on to surplus reserves. Holding reserves has both costs and benefits associated with it, which implies that the optimal reserve level is neither zero nor infinite. The primary benefit of reserves is that it protects a country from sudden and unexpected shortages of international liquidity, and thus from financial crises. On the other hand, one major potential cost of reserve accumulation is inflation. A central bank's issuance of domestic currency to purchase foreign currency increases the monetary base, which in turn leads to inflation, even though such inflationary impact can be sterilized through the issuance of bonds. The optimal reserve level is where the marginal benefit equals marginal cost.

Two widely used indicators of reserve adequacy include the ratio of reserves to short-term external debt and the ratio of reserves to broad money. For the former ratio, the critical value is one, with a value below one signalling danger. The underlying idea here is that a country that has reserves equal to or more than all external debt falling due within one year should be able to service its immediate external obligations even during a financial crisis. In the Indian context, as at end September 2013, the ratio of reserves (US$ 294.8 bn) to short term debt (US$ 94.8 bn) was 3.1, more than three times the critical value.

The second ratio – reserves to broad money – is especially relevant for countries that are subject to a significant risk of capital flight. The higher the ratio, the greater the confidence of the general public in the value of the local currency and hence lower the likelihood of crisis-provoking flights into other currencies. While there is no general consensus on the critical value of this ratio, the suggested values range from 5 per cent to 20 per cent. In case of India, this ratio was 18.6 per cent as at end March 2014. While the intention here is not to be judgemental on the optimal amount of forex reserves, based on the aforesaid, it can perhaps be inferred that India has fairly reasonable amounts of reserves that are beyond the optimal levels.

Given this, a certain amount of funds out of the foreign exchange reserves can be set aside for exclusively promoting outbound investments from India. This would entail setting in place an appropriate institutional mechanism for the management of this fund. It is here that the role of the country's apex financial institution, viz. Export-Import Bank of India (EXIM Bank) could gain significance since it has been actively promoting overseas direct investment over the last three decades through its various financing programs.

It is suggested that a Special Funding Mechanism could be created with an initial corpus of US$ 10 bn allocated out of the country's foreign exchange reserves. The funds could be utilised to extend medium term foreign currency finance to Indian enterprises planning to invest abroad or to state commercial banks, particularly medium sized banks who do not have foreign branches, and hence, unable to contract external commercial borrowings (ECBs), and on-lend them to their customers who are venturing overseas of direct investments.

The country's reserves are in the region of US$ 293.4 bn. The proposed amount of US$ 10 bn constitutes less than 3.4 per cent of the reserves, and would not dent the foreign exchange reserves position; on the other hand, the funds would be utilized for promoting overseas investments. The fact that the country has fairly ample reserves (as was highlighted in the preceding paragraphs) and that RBI has been earning less than 2 per cent (of average foreign currency assets) towards interest, discount, exchange gain/loss, capital gain/loss on securities renders the proposed suggestion worthy of a pilot run. The institution administering the fund would need to ensure that earnings of RBI on placement with its SPV will be broadly the same as their current average yield on investment of foreign exchange reserves. Further, there will be no monetary policy implications unlike in the case of on-shore swap, when corresponding Rupee funds would be pumped into the domestic market.

Alternatively, the corpus of the Special Funding Mechanism could be created out of the Central Government budget, similar to the "Special Funds for Foreign Economic and Technology Cooperation" earmarked for the Chinese companies by its government. As was pointed out in an earlier section, the scope of these funds, inter alia, includes supporting overseas investment by Chinese enterprises through both hard as well as soft interventions. The fund provides direct subsidies as also interest subvention on medium and long-term loans from domestic banks incurred for projects such as overseas investment, cooperation, and project contracting, etc. In the Indian context, the Fund could complement the endeavours of Indian companies planning cross border investments through a matching grant support for covering soft expenses including legal, technical and commercial consultation fees, fees for undertaking a techno-economic feasibility study (in case of greenfield projects or brownfield expansions), translation fees for regulatory documents and other materials, and operational fees for overseas labour services cooperation, etc. The interest subvention would encourage more Indian enterprises to undertake overseas expeditions in order to have a global footprint. This would be of particular relevance to small and mid size companies, for whom competitive loan pricing is a major handicap in their expansion plans and for whom, raising relatively low cost foreign currency funds from the international markets may not be a feasible option.

Overcoming Statistical Discrepancy by Capturing Data on Actual Investment Destination

The RBI data on overseas direct investments only captures the actual flow of funds rather than the ultimate destination of fund flows. The main drawback of the RBI data on JV/WOS is that it captures only the immediate recipients of the investment, which, quite often, are merely intermediaries that do not have any operations. This was highlighted in an earlier chapter and was reflected in the data compiled from RBI. According to that, in terms of cumulative Indian outward investment flows, during the period between 2003-04 and 2011-12, countries like Singapore, Mauritius and the Netherlands –which provide an attractive tax-neutral regime for holding companies – were the top three destinations, together accounting for nearly half (US$ 58 bn) the total outward investments of US$ 119 bn from India. These investments follow complex and opaque structures and are mostly routed through multiple layers of shell companies or SPVs, primarily to leverage upon the tax treaties between different countries, making it difficult to identify the actual destination of investments.

The discrepancy in flow of funds and actual destination of outward investment (as also the sectoral composition of these investments) is also borne out by supplementing RBI data with sources that track real time outward investment data. One such data source is fDi Intelligence brought out by the Financial Times. ODI data from this source was analysed in another section in the Study and it clearly brought to light the divergence from data as captured by RBI, alluding to the fact that a large proportion of the investments (as presented in RBI data) into countries that provide tax haven are superficial and not evident in terms of actual ground level investments. Thus, as per data sourced from fDi Intelligence, while Mauritius and Netherlands do not figure even among the top 20 destinations for Indian investments (cumulative in terms of capital expenditure from 2003 to 2012), Singapore only manages a distant 13th rank as recipient of Indian outward investment.

In addition, some of these cross-border investments could perhaps be viewed as 'round tripping' of capital. Round tripping enables investors to hide their identity and avoid taxes by taking the investment out of India and bringing it back under the garb of inward investments into India. A rather rudimentary and indicative assessment could be made by a cursory look at India's inward FDI data. Here again, Mauritius and Singapore emerge as the top two sources of FDI accounting for nearly half the cumulative FDI inflows of US$ 190 bn into India during the period April 2000 to January 2013. The opportunity for tax arbitrage arises from the differential tax treatment meted out by India to foreign investors from certain countries in comparison to Indian investors. India's tax treaties with countries like Mauritius and Singapore allows investors coming through intermediaries based there to avoid paying taxes on capital gains made in India.

Thus, data captured by RBI on overseas investment could lead to a distorted picture of the extent of the linkages between India and the rest of the world in terms of actual outward investments. Getting a more meaningful understanding on the trends in Indian overseas investments would entail RBI tracking data on cross-border investments at a granular level and making an endeavour to monitor end-use of such investments. In this context, RBI should make it mandatory for firms to report not only the first but also the final destination of their overseas investments. Here again, the proposed Overseas Investment Promotion Council could play a significant role, akin to the monitoring, supervision and feedback mechanisms within the Chinese system, and their implementation in practice, such as:

- ✶ The process and conduct of 'joint inspection' missions involving MOFCOM in the Chinese context;
- ✶ The implementation of environmental and social safeguard policies within the banking system; and
- ✶ The ways in which safeguard policies are addressed and implemented by Chinese state-owned, state-regulated and purely private companies.

In fact, in line with the change in policy focus from ODI control to ODI promotion, the government of China has outlined a series of regulations regarding performance of ODI. To this end, standards and procedures for the annual evaluation of ODI projects have been adopted. To master first hand data on overseas investment opportunities, statistical system for overseas investment were established.

While India could be well positioned to capture more accurate data on the final destination of the country's overseas investments by selectively drawing out lessons from the Chinese experience, it may not be out of place to suggest here that the proposed OIPC could endeavour to supplement the information Indian companies submit in the registration and approval process through RBI by undertaking a survey based approach to collection and collation of data.

Align Bilateral Investment Treaties from the perspective of both Inward and Outward FDI

The increasing number of Bilateral Investment Promotion and Protection Agreements (BIPAs) is a result of recognition of the positive role that foreign investment can play in economic development. India has also pursued a policy of entering into BIPAs with a view to providing predictable investment climate to foreign investment in India as well as to protect Indian investments abroad. The agreements by and large have standard elements and provide a legal basis for enforcing the rights of the investors. Typically, BIPAs try to promote foreign investment through protection, this is to say, by assurance to foreign investors that foreign investment, that has been admitted in accordance with the host country's policies, laws and regulations, is guaranteed fair and equitable treatment, full and constant legal security and dispute resolution through international mechanism including for investor to state disputes. As of December 2013, India had signed BIPAs with 83 countries out of which 72 BIPAs had already come into force and the remaining agreements were in the process of being enforced. In addition, agreements have also been finalised and/or being negotiated with a number of other countries including the United States and Canada, among others. However, most of these BIPAs were drawn up ostensibly keeping the objective of attracting inward investment rather than safeguarding interests of Indian outbound investments.

While Indian BIPA programme was designed more to attract inward FDI than protect outward FDI, it is rather intriguing that India has signed BIPAs with all but 5 (US, UAE, Singapore in addition to the Channel Islands and the British Virgin Islands) of the top 15 destinations for outward Indian FDI. Any good investment treaty programme for an emerging economy like India should not only be designed for attracting inward FDI but should also account for outward FDI from that economy. India's BIPA programme, at least on paper, appears to meet this standard since India has concluded investment treaties with several top destinations for outward FDI from India.

Another important factor with respect to the country's BIPA programme is the role of the industry in shaping such treaties. Thus far, the participants in the discussion on Indian BIPAs have primarily included academia, domestic and international lawyers, and Indian government. There are good reasons for taking into account the perspective of the actual beneficiary of the BIPA programme, viz. the Indian business investors. Indian investors and companies can begin by forming a forum for discussing issues relating to international protection of investments. They could carry out a periodic survey of the most popular destinations for outward FDI from India, and make responsive suggestions to the government's BIPA programme with specific countries. Individual investors concerned about the investment climate in countries with no investment treaties could ask the Indian government, through this channel, to try and negotiate one. With growing outward FDI by Indian firms, a systemic analysis of the benefits of investment treaties for protection of outward Indian FDI by all stakeholders involved would certainly be of immense importance. This is where the role of the proposed Overseas Investment Promotion Council gains further merit – this institutional mechanism would provide an ideal platform for the industry for such a constructive forum.

SUM UP

This study has analysed the varied pattern of India's overseas investments – in terms of sectors and geographies – and has made an attempt to highlight the motives underlying those investments by Indian enterprises as also tried to briefly capture the experience of these firms in their overseas expositions. The increasing trend in overseas direct investments from India witnessed in the recent past is likely to be further bolstered, going forward, with greater concentration on strategic resources in general, and the manufacturing sector in particular. Given the current trend, the destinations will largely depict tax-easing nations, though actual investments remain elsewhere, unless selective measures are undertaken to plug such regulatory loopholes.

To put it in a nutshell, Indian outbound investments represents a relatively new dimension of India's integration into global economic and political systems. India investing overseas is not a goal by itself, rather a means to an end. The end is development, growth, and self reliance in the years to come. An optimal strategy structure needs to be evolved by having in place strong policy guidelines, essentially through creation of a suitable institutional mechanism which could help Indian enterprises to actively seek opportunities overseas, especially in the manufacturing sector. Emerging market economies are aware of this, and India needs to actively participate in this so as not to be left behind in its pursuit to become a truly global economic powerhouse.

ANNEXURE - 1

INDIA'S ODI COUNTRYWISE – 2001-12 (US$ mn)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	TOTAL
Mauritius	37.81	119.4	58.42	166.03	774.17	950.23	1511.79	2074.66	1364.06	4970.27	7421.07	**19447.9**
Singapore	23.4	36.5	14.42	351.11	409.15	1045.09	8370.56	3748.83	3797.57	3938.85	5945.78	**27681.3**
Australia	1.69	56.68	31.53	53.39	80.69	51.92	62.65	125.71	77.79	182.88	2415.29	**3140.2**
Netherlands	35.47	10.87	15.07	26.81	634.86	350.06	1865.42	2794.71	1529.73	1470.38	2258.08	**10991.5**
Panama	-	-	-	-	22.53	0.15	25.71	44.74	30.37	64.13	1889.89	**2077.5**
United-Kingdom	83.46	33.7	82.14	127.57	3019.09	384.66	740.8	343.98	344.84	393.04	1832.54	**7385.8**
USA	254.57	245.49	221.72	145.51	390.68	708.02	1187.55	956.01	752.79	1148.41	**1644.21**	**7655.0**
British-Virgin-Islands	7.36	3.23	3.59	23.47	30.85	55.18	803.82	275.87	742.68	281.04	1582.73	**3809.8**
UAE	8.33	41.31	79.72	183.43	120.24	208.05	826.04	599.36	636.04	760.94	1134.92	**4598.4**
Switzerland	0.69	1.04	1.25	31.52	64.55	170.17	58.63	248.07	138.16	251.21	969.08	**1934.4**
Cyprus	-	-	0.02	1.93	316.47	178.6	575.65	2299.02	454.36	516.14	638.63	**4980.8**
Luxembourg	-	0.95	-	-	-	0.01	6.3	0.07	4.54	2.98	416.26	**431.1**
Malaysia	2.02	0.81	2.2	3.78	4.31	44.85	132.56	6.46	6.68	74.85	400.64	**679.2**
Hong-Kong	16.59	6.22	19.34	44.06	63.83	81.56	94.22	218.74	132.65	115.49	383.04	**1175.7**
Cayman-Island	-	-	0	9.19	5.88	43.2	28.11	119.79	43.03	-	218.89	**468.1**
Sri-Lanka	3.73	8.68	43.17	7.94	6.07	7.47	15.06	53.28	19.94	44.34	172.82	**382.5**
Canada	1.76	1.12	0.39	1.48	10.67	412.14	103.69	40.39	89.75	38.68	158.32	**858.4**
Ireland	11.44	-	4.62	8.63	3.74	1.81	0.03	35.1	6.17	12.97	148.02	**232.5**
Russia	408.32	251.3	371.44	332.96	1086.45	509.45	365.78	676.08	167.59	125.81	122.73	**4417.9**
Germany	2.17	4.99	18.16	9.9	49.21	58.03	117.57	38.79	33.04	56.47	120.36	**508.7**
Indonesia	-	0.12	0.27	16.76	3.57	28.34	19.51	23.18	265.46	28.71	113.28	**499.2**
Denmark	0.15	-	-	7.45	19.34	6.86	1.75	5.1	79.2	18.26	91.55	**229.7**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	TOTAL
Bangladesh	1.34	1.01	1.72	1.84	1.47	5.5	47.71	22.37	167.31	12.05	72.91	**335.2**
Bermuda	36.3	99.02	227.48	2.6	-	-	0.05	129.9	193	-	61.00	**749.4**
Philippines	0.14	0.01	1.02	4.09	3.58	1.61	19.75	10.81	34.4	38.09	56.06	**169.6**
China	14.57	21.16	19.33	16.98	54.39	122.41	40.36	37.32	30.42	748.01	52.45	**1157.4**
Spain	0.33	0.04	0.19	0.01	5.15	9.63	9.88	92.9	19.43	16.94	42.75	**197.3**
Bahamas	-	-	0.02	0.57	-	0.1	-	0.26	-	-	34.42	**35.4**
Malta	22.28	35.38	39.63	10.04	0.05	21.08	0.01	-	-	1.12	34.00	**163.6**
Thailand	1.09	8.89	5.83	3.42	91.96	13.76	18.79	124.42	25.29	25	33.32	**351.8**
Czech-Republic	-	-	0.01	0.77	-	35.51	31.89	12.22	16.69	71.88	32.68	**201.6**
Belgium	0.58	0.78	8.57	2.12	74.19	127.39	21.67	66.79	12.13	40.98	28.19	**383.4**
France	0.96	1.6	81.66	7.83	3.51	57.97	20.11	132.08	30.11	21.53	23.40	**380.8**
Brazil	5.93	3.17	6.19	20.28	1.93	32.37	9.6	11.98	9.25	6.95	21.14	**128.8**
Jersey	-	-	-	-	-	-	-	0.03	19.85	3.25	20.00	**43.1**
Italy	1.36	0.12	0.09	7.44	0.24	23.9	21.5	85.88	47.63	39.4	19.35	**246.9**
Turkey	-	-	-	-	0.38	0.4	6.49	5.96	16.13	15.6	17.60	**62.6**
Ghana	0.35	0.2	-	0.11	0.65	1.53	4.05	8.56	6.82	4.06	17.41	**43.7**
Nigeria	0.05	4.08	3.23	1.85	6.41	19.08	18.09	1.27	2.24	8.43	16.26	**81.0**
Nepal	1.52	4.12	1.05	3.77	0.56	0.68	11.8	4.59	5.86	8.64	14.38	**57.0**
Isel-Of-Man	-	-	-	0.01	-	63.38	124.97	345.02	22.12	47.62	13.58	**616.7**
Egypt	-	0.15	2.72	0.42	2.65	6.98	228.12	9.46	14.5	16.92	11.82	**293.7**
Japan	0.67	0.29	0.04	0.08	0.76	1.06	42.05	29.44	1.16	2.16	9.92	**87.6**
Myanmar	-	2.07	8.43	7.73	35.01	42.7	35.38	34.93	15.03	31.88	9.72	**222.9**
Tanzania	-	0.01	0.24	0.18	-	-	10.39	0.08	22.12	0.47	7.42	**40.9**
Maldives	-	-	-	-	2.24	2.8	-	1.87	0.36	0.83	7.37	**15.5**
Oman	0.13	69.75	83.59	5.19	3.04	16.06	7.96	10.32	32.66	22.91	7.10	**258.7**
Botswana	-	-	0.05	0.02	0.02	0.06	4.84	7.48	4.18	2.89	5.61	**25.2**
Bolivia	-	-	-	-	-	-	0.13	5.02	2	3	5.50	**15.7**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	TOTAL
Bhutan	-	-	-	-	-	1.24	3.12	14.85	3.9	7.41	5.27	**35.8**
Bahrain	1.02	-	-	0.05	0.07	1.14	6.32	7.94	7.15	13.66	4.38	**41.7**
Mexico	1.41	-	-	0.16	52.36	9.21	9.11	7.77	16	9.49	4.07	**109.6**
Sweden	-	2.14	-	-	4.51	2.75	0.04	1.69	0.04	0.05	3.59	**14.8**
Ethiopia	-	0.11	0.39	0.2	3.24	0.91	2.01	3.67	2.44	2.68	3.55	**19.2**
Channel-Island	0.04	-	2.29	38.84	-	6110.51	0.29	44.01	515.56	-	3.20	**6714.7**
Vietnam	0.83	97.27	12.42	0.06	0.37	3.96	31.34	49.75	9.75	66.31	3.14	**275.2**
Israel	-	-	0.5	0.18	-	-	3.52	7.7	0.11	12.28	3.10	**27.4**
New-Zealand	-	-	0.13	0.03	0.13	1.81	1.41	0.5	0.53	5.56	2.80	**12.9**
Zambia	-	-	0.07	0.04	-	-	0.01	0.49	0.12	0.88	2.78	**4.4**
Chile	-	-	-	-	-	-	-	-	16.72	-	2.70	**19.4**
Kazakhistan	-	0.13	-	5.85	14	-	-	0.01	0.05	-	2.49	**22.5**
Qatar	-	-	0.32	-	-	2.63	75.7	23.87	0.28	3.25	2.30	**108.4**
Venezula	-	-	-	-	-	-	-	-	-	0.01	2.20	**2.2**
Laos	-	-	-	-	-	2	-	2.03	2	4	2.06	**12.1**
Algeria	-	-	0.55	0.25	0.29	0.32	-	-	-	-	2.00	**3.4**
Peru	-	-	-	-	-	0.49	0.24	0.42	0.06	0.04	1.92	**3.2**
Kenya	0.41	0.68	0.02	0.19	0.47	0.2	133.74	0.9	0.54	0.61	1.80	**139.6**
Guatemal	-	-	-	-	-	-	-	-	-	6.75	1.77	**8.5**
Romania	-	-	0.1	0.89	10.2	0.3	-	0.91	0.61	0.34	1.62	**15.0**
Mauritania	-	-	-	-	-	-	-	1.62	0.02	-	1.40	**3.0**
Namibia	-	-	0.05	-	-	-	-	0.1	-	0.63	1.28	**2.1**
Mali	-	-	-	-	-	-	-	0.3	-	0	1.20	**1.5**
Finland	-	-	0.02	0.01	-	0.02	23.04	-	1.29	4.29	1.16	**29.8**
Poland	0.05	0.5	-	0.15	0.33	0.87	36	1.6	2.53	0.36	1.07	**43.5**
Mozambique	-	-	-	10.06	-	-	3.31	4.81	0.3	0.54	0.98	**20.0**
Brunei	-	-	-	-	-	-	-	-	-	-	0.90	**0.9**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	TOTAL
Kyrgyz-Republic	-	-	-	-	-	-	-	1.45	0.3	-	0.90	**2.7**
Congo	-	-	-	-	0.22	-	-	3.75	-	-	0.70	**4.7**
Seychelles	-	-	-	-	-	-	-	2.53	-	0.69	0.69	**3.9**
Madagascar	-	-	-	-	-	-	-	0.02	0.02	0.01	0.61	**0.7**
Cambodia	-	0.02	-	0.02	-	14.46	-	-	-	-	0.44	**14.9**
Liberia	-	-	-	-	154.94	0	18.38	6	-	-	0.43	**179.7**
Uganda	-	-	0.2	-	-	1	-	-	-	0	0.30	**1.5**
Uzbekistan	-	1.59	0.53	0.19	0.02	0.12	0.25	0.62	1.43	0.5	0.22	**5.5**
Guyana											0.21	**0.2**
Niger	-	-	-	-	-	-	-	0.14	0.37	0.22	0.21	**0.9**
Austria	4.62	-	-	0.1	0.09	5.66	1.4	13.85	6.29	0.03	0.18	**32.2**
Barbados											0.16	**0.2**
Gabon	-	-	-	-	-	12.7	0.54	4.6	1.47	0.1	0.15	**19.6**
Guinea Republic											0.12	**0.1**
Colombia	0.11	0.21	-	-	-	-	-	0.06	0.04	0.04	0.12	**0.6**
Kuwait	-	0.07	0.54	0.72	0.85	-	0.21	0.02	-	-	0.10	**2.5**
Georgia	-	-	-	-	0.22	0.49	0.14	0.2	0.16	-	0.10	**1.3**
Greece	0.13	-	-	-	-	-	-	-	-	-	0.08	**0.2**
Zimbabwe	-	-	-	0.18	1.15	-	-	-	-	-	0.06	**1.4**
Lithuania	-	-	-	-	-	-	-	-	-	0.42	0.04	**0.5**
Ukraine	-	-	-	3.96	0	-	-	-	0.01	0	0.03	**4.0**
Serbia											0.02	**0.0**
Hungary	0.1	0.15	1.62	-	-	-	2.09	2.53	0.56	4.98	0.02	**12.0**
Morocco	-	-	-	-	-	-	1.87	1.41	0.59	38.02	0.01	**41.9**
Sudan	0.27	669.97	4.37	232.6	131.55	1039.23	69.39	63.48	16.45	4.31	0.00	**2231.6**
Afghanistan	-	-	-	-	0.06	-	1.75	-	-	-	0.00	**1.8**
Albania	-	-	-	-	-	-	-	-	-	0.12	0.00	**0.1**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	TOTAL
Argentina	-	-	-	-	-	-	0.01	0.23	-	0.55	0.00	**0.8**
Azerbaijan	-	-	-	2.05	-	-	-	-	-	-	0.00	**2.1**
Belize	-	-	-	-	-	0.16	-	-	-	-	0.00	**0.2**
Benin	-	-	-	-	-	-	-	-	0.06	-	0.00	**0.1**
British-Anguilla	-	-	-	-	-	-	-	-	0.01	-	0.00	**0.0**
Bulgaria	-	-	-	-	-	0.5	-	-	-	-	0.00	**0.5**
Burkino-Faso	-	-	0.04	-	-	-	-	-	-	-	0.00	**0.0**
Cuba	-	-	-	-	-	23.17	1.38	31.37	24.79	0.02	0.00	**80.7**
Dominican-Republic	-	-	-	-	-	-	0	-	0	-	0.00	**0.0**
Ecaudor	-	-	-	-	-	-	-	-	0	-	0.00	**0.0**
Fiji	-	-	-	-	-	-	-	0.04	-	-	0.00	**0.0**
Gambia	-	-	-	-	-	-	-	1.5	28.2	0.86	0.00	**30.6**
Honduras-Republic	-	-	-	-	0.47	0.06	-	-	0.05	-	0.00	**0.6**
Iran	-	-	0.94	7.8	7.21	40.94	8.23	17.05	54.55	0.22	0.00	**136.9**
Iraq	0.17	-	-	-	-	-	-	-	-	-	0.00	**0.2**
Ivory-Coast	-	-	-	11.24	5.43	0.47	80.17	0.5	0.3	-	0.00	**98.1**
Jordan	-	-	-	-	-	-	-	13.23	-	-	0.00	**13.2**
Kirghizstan	-	-	-	2.75	1.95	-	-	-	-	-	0.00	**4.7**
Libya	-	-	9.68	2.37	1.37	3.54	11.85	23.12	40.7	24.38	0.00	**117.0**
Liechtenstein	-	-	-	-	-	-	-	-	0.02	-	0.00	**0.0**
Malawi	-	-	-	-	-	-	0.18	0.81	0.3	-	0.00	**1.3**
Maldova	-	-	-	3.25	1.5	1.35	-	-	-	-	0.00	**6.1**
Marshall-Island	-	-	-	-	-	-	-	0.1	-	-	0.00	**0.1**
Mongolia	-	-	-	-	-	-	-	-	2.27	0.01	0.00	**2.3**
Norway	-	0.01	-	-	-	0.38	-	-	-	0.06	0.00	**0.5**
Portugal	3	-	-	-	-	-	0.06	0	0.02	0.04	0.00	**3.1**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	TOTAL
Rwanda	-	-	-	-	-	-	17.55	1.42	-	-	0	**19.0**
Saudi-Arabia	-	0.12	-	-	-	7.73	91.68	5.42	4.23	0.73	0	**109.9**
Senegal	-	-	15	-	1	-	0.03	-	-	-	0	**16.0**
Sierra-Leone	-	-	-	-	-	0.01	-	-	-	-	0	**0.0**
Slovakia	-	-	-	-	-	-	-	0.02	-	0.26	0.00	**0.3**
South-Africa	0.13	0.12	1.4	3.46	9.01	28.08	58.67	17.78	70.29	31.74	0.00	**220.7**
South-Korea	-	-	51.51	1.55	-	0.7	0.07	-	0.08	462.49	0.00	**516.4**
St.-Vincent	-	-	-	0.05	-	-	-	-	-	-	0.00	**0.1**
Swaziland	-	-	-	-	-	-	-	-	0.37	-	0.00	**0.4**
Syrian-Arab-Republic	-	-	-	0.93	2.4	2.64	6.73	3.38	1.03	2.86	0	**20.0**
Tadjikistan	-	-	0.02	0.03	-	-	-	2.12	1.4	0.6	0	**4.2**
Taiwan	-	-	-	-	0.24	0.23	-	-	0.08	1.5	0	**2.1**
Timor-Leste	-	-	-	-	-	0.73	-	-	0.01	1.3	0	**2.0**
Trinidad-And-Tobago	-	-	0.6	-	-	-	-	-	-	-	0	**0.6**
Tunisia	-	-	-	-	-	5.09	-	-	-	-	0	**5.1**
Uruguay	0.44	1	2.21	8.99	24.24	7.2	96.1	12.54	-	-	0.00	**152.7**
Vanatua	-	-	-	2.3	0.18	-	-	-	-	-	0.00	**2.5**
Yemen	-	-	-	-	-	-	-	2.55	-	-	0.00	**2.6**
TOTAL	**999.29**	**1848.35**	**1564.08**	**1991.77**	**7834.61**	**13236.81**	**18446.72**	**16327.68**	**12303.58**	**16402.66**	**30824.12**	**121779.7**

Source: Data accessed from RBI, EXIM Bank Research; data for 2011-12 is for approved ODI

ANNEXURE - 2

TOP ACTIIVITY-COUNTRYWISE DESTINATION OF ODI FROM INDIA

ACTIVITY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Financial, Insurance, Real Estate And Business Services	**324.3**	**362.53**	**197.32**	**330.11**	**930.72**	**8467.45**	**9521.56**	**3513.89**	**3594.2**	**6410.72**	**33652.8**
Singapore	16.21	7.92	10.19	136.17	98.98	456.86	7274.52	1323.89	1031.93	2788.1	**13144.77**
Mauritius	2.56	40.45	19.13	14.83	502.58	221.66	385.47	411.76	440.47	1796.76	**3835.67**
Netherlands	18.96	5.87	5.23	16.34	24.47	124.54	69.95	73.91	85.9	732.38	**1157.55**
United States Of America	210	181.33	98.26	59.91	124.98	412.06	744.16	403.83	396.92	308.76	**2940.21**
Channel Island	0.04			3.64		6110.51	0.29	29.52	495.59		**6639.59**
Manufacturing	**498.84**	**328.68**	**469.37**	**716**	**4845.32**	**1523.1**	**2596.45**	**5814.44**	**3252.26**	**2515.7**	**22560.16**
Mauritius	15.44	24.54	26.48	91.43	246.7	531.9	778.56	1025.9	204.59	1469.1	**4414.64**
Singapore	5.03	27.05	2.3	192.37	113.4	243.9	224.23	1548.94	2144.14	470.39	**4971.75**
Netherlands	16.51	4.99	9.84	10.14	569.1	181.62	1153.27	2496.93	515.52	314.23	**5272.15**
United Kingdom	53.54	20.8	59.31	90.18	2829.67	61.21	74.61	66.59	220.43	136.2	**3612.54**
Russia	408.32	251.3	371.44	331.88	1086.45	504.47	365.78	676.08	167.58	125.78	**4289.08**

ACTIVITY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Wholsale, Retail Trade, Restaurants And Hotels	**10.76**	**45.48**	**81.55**	**133.26**	**80.83**	**290.38**	**381.26**	**729.3**	**670.73**	**1433.51**	**3857.06**
Mauritius	4.02	8.31	9.75	5.18	16.17	170.53	48.1	183.26	176.64	899.21	1521.17
United Arab Emirates	2.65	34.7	67.77	117.99	12.21	28.12	97.21	43.52	26.33	219.66	650.16
Singapore	0.03	0.25	0.85	7.4	7.65	40.79	29.35	310.82	62.66	127.76	587.56
Netherlands		0.01		0.14	41.29	43.83	141.14	180.64	138.36	116.86	662.27
British Virgin Islands	4.06	2.21	3.18	2.55	3.51	7.11	65.46	11.06	266.74	70.02	435.9
Agriculture , Hunting, Forestry And Fishing	15.28	60.28	21.18	40.56	53.46	217.51	557.77	543.82	936.29	1185.66	3631.81
China							2.77	0.34	2.82	448.71	454.64
Mauritius	10.15	4.19	2.02	3.3	0.06		18.83	152.9	293.78	443.2	928.43
Singapore		0.93	1.04	1.24	8	166.24	247.41	274.64	261.37	125.66	1086.53
United Arab Emirates	0.33	0.24	0.14	0.26	0.56	3.76	149.7	18.97	28.35	39.38	241.69
Indonesia					0.05	2.95	4.34	5.62	240.58	3.53	257.07
Transport, Storage And Communication Services	0.05	25.31	215.01	12.24	180.54	86.94	1201.52	284.52	296.26	635.9	2938.29
Netherlands						0.07	500	35.06	0.18	261.27	796.58
Singapore	0.05	0.01	0	12.24	180.54	86.82	495.92	132.2	217.07	184.83	1309.68
Mauritius		25.3				0.05	203.63	77.46	67.01	176.48	549.93
Sri Lanka						0	1.97	39.8	12	13.32	67.09
Bermuda			215.01								215.01
Community, Social And Personal Services	22.36	51.33	31.75	64.03	123.09	88.22	193.21	386.35	177.63	697.05	1835.02
United States Of America	1.13	0.07	17.84	6.38	1.99	9.56	18.94	134.8	74.97	290.43	556.11
Singapore	2		0.01	1.65	0.2	47.44	8.55	0.28	28.38	102.95	191.46

ACTIVITY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Cyprus				0.33	1.72	2.49	2.7			98.91	106.15
Mauritius	5.58	16.45	0.43	47.27	4.17	6.61	66.3	97.39	50.23	98.08	392.51
United Kingdom	0.03	0.02	1.62	2.55	110.2	15.52	50.06	128.13	18.6	86.28	413.01
Construction	1.42	5.14	1.21	35.51	36.93	101.08	695	341.43	361.44	371.02	1950.18
United Arab Emirates	0.54	0.42	0.48	29.42	10.3	42.99	39.29	38.78	26.53	92.6	281.35
Mauritius	0.06	0.16	0.45	4	4.49	19.14	7.25	111.84	92.03	76.04	
315.46Singapore			0			0.87	68.67	45.64	28.23	55.46	198.87
British Virgin Islands	0.01				0.79		500.37	21.59	0.06	47.22	570.04
Cyprus							0.05	5.4	92.23	8.9	106.58
Electricity, Gas And Water	0.1	0.45	0.97	1.5	5.12	9.05	36.14	121.52	826.84	75.66	1077.35
Canada							3		30.32	37.98	71.3
Singapore	0.08	0.33					16.81	111.87	13.62	24.65	167.36
Netherlands									781.73	9.32	791.05
United Arab Emirates					1.84		0.29	8.47	1.17	3.71	15.48
Germany	0.02	0.12	0.97	1.5	3.28	9.05	16.04	1.18			32.16
Miscellaneous	0.64	0.42	0.25	0.43	1.55	47.42	360.64	58.81	76.84	205.23	752.23
British Virgin Islands					0	5.75	20.57	5.41	9.62	88.66	130.01
Singapore		0.01	0.03	0.04	0.38	2.17	5.1	0.55	10.17	59.05	77.5
Isel Of Man						0.96	67.54	43.82	20.52	40.28	173.12
United Kingdom		0.03		0.18	0.34	8.54	242.65	3.01	7.88	13.07	275.7
United States Of America	0.64	0.38	0.22	0.21	0.83	30	24.78	6.02	28.65	4.17	95.9
Grand Total	**777.99**	**658.39**	**923.99**	**1190.72**	**6006.9**	**9600.09**	**14235.63**	**10287.82**	**8811.9**	**12509.35**	**65002.78**

Source: Data accessed from RBI, EXIM Bank Research

ANNEXURE - 3

TOP 20 SUB ACTIIVITY-COUNTRYWISE DESTINATION OF ODI FROM INDIA

SUB-ACTIVITY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Other Business Services Not Elsewhere Classified	**25.14**	**28.56**	**14.73**	**68.68**	**522.19**	**1072.23**	**7615.1**	**1471.72**	**1059.75**	**4068.88**
Singapore	0.11	2.98	0.75	17.65	6.83	346.45	7026.38	1071.5	833.41	2582.81
Mauritius	0.48	3.19	1.55	8.76	467.33	181.53	262.79	138.38	94.82	788.95
Netherlands				6.04	10.07	38.24	11.52	44.91	11.96	600.26
Cyprus				1.6	3.04	111.12	18.63	16.04	17.07	33.89
Switzerland		0.01	0.61		3.66	74.46	3.66	0.03	1.4	19.12
Hotels, Rooming Houses, Camps And Other Lodging Places	**4.98**	**4.68**	**3.35**	**6.18**	**4.55**	**14.64**	**76.89**	**114.3**	**101.94**	**1006.92**
Mauritius				0.18				0.01	10	828.6
Cyprus							68	33.16	17.57	99.15
Hongkong								33.25	39.15	43
United Kingdom	0.58			0.14	0.43	1	0.02	0.5	5.35	14.92
British Virgin Islands	3.81	2.21	2.16	2.29		5.9	1.77			6.5

SUB-ACTIVITY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Data Processing, Software Development And Computer Consultancy Services	**293.62**	**329.26**	**175.9**	**130.07**	**364.59**	**1078.51**	**1107.33**	**917.85**	**839.82**	**715.09**
United States Of America	184.17	161.67	87.37	50.54	102.35	312.14	526.85	287.69	312.1	232.71
China	0.52	1.34	3.37	5.17	5.84	13.9	8.84	11.58		100.69
Australia	0.48	1.07	14.85	2.52	29.14	24.42	0.24	2.33	0.03	96.47
Mauritius	2.07	37.22	15.19	5.66	34.17	34.87	45.94	44.99	18.45	62.09
United Kingdom	26.2	5.99	11.04	23.27	19.97	81.72	63.46	62.05	41.58	48.25
Manufacture Of Drugs, Medicines And Allied Products	34.84	44.35	200.26	136.94	904.53	349.78	660.52	501.49	409.64	642.73
Switzerland			0.09	31.04	58.91	91.53	5.95	133.04	122.93	209.74
Cyprus					133.78		212.72	28.53	49.66	158.28
United States Of America	4.36	3.7	60.33	38.41	61.77	36.52	23.01	99.86	42.81	93.1
United Arab Emirates			5.05	0.28	12.52	0.92	34.33	12.32	27.46	58.87
Singapore		0.01	0.05	0.01	11.2	0.49	0.21	5.51	30.15	52.89
Manufacture Of Basic Organic Chemicals N.E.C.		0.01	15		1.06	0.74	0.16	2.8	2.57	627.59
Mauritius					0.06	0.71	0.12	0.33	0.57	620.85
Hongkong								2		2.82
Singapore									0	1.08
United States Of America									1.87	1
Switzerland										0.94
Financial Services Other Than Securities Dealing Activities							0.34	0.5	290.64	620.47
Mauritius								0.07	290.26	612.85
Singapore							0.34	0.07	0.03	2.23
Malaysia										1.26
United States Of America									0.02	1.18
Sri Lanka										1.14

SUB-ACTIVITY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Manufacture Of Agricultural Machinery And Equipment And Parts Thereof				**1.75**			**10.05**	**1.26**	**0**	**462.76**
South Korea										462.39
Australia								1.22		0.37
Mauritius							10.05	0	0	
United States Of America				1.75						
Spain								0.04		
Telephone Communication Services	0.4	26.09	0.15		0	27.85	878.54	88.87	78.03	462.19
Netherlands						0.07	500	35.03	0.18	261.24
Mauritius		25.3				0.05	120.25	12	10	164.51
Singapore						25	251.98	0.1	27.23	13.72
Sri Lanka						0	1.97	39.8	12	13.3
United Kingdom						0.19	0.82	0.07	0.09	5.08
Architectural And Enginearchi-tectural And Engineering And Other Technical Consultancy Activities	0.04	0.02	0.32	1.42	1.11	6154.07	220.48	396.71	918.01	437.74
United Arab Emirates					0.04	7.53	114.01	179.19	233.99	157.7
Netherlands				0.5	0.44	0.02	19.98	22.85	41.48	121.18
Mauritius							57.6	62.52	6.2	110.12
Singapore						32.04	13.56	55.25	110.04	38.09
Egypt						5	1.5	0.71	12.92	4.01
Extraction Of Crude Petroleum						0.73	2.58	122.36	181.4	394.94
China										271
Mauritius							0.1	100	152.3	95.24
Myanmar								10.26		16.56
Australia							1.88	12.09	29.06	5.89
United Arab Emirates										4.92

SUB-ACTIVITY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Services Incidental To Mining Such As Drilling, Shafting, Reclamation Of Mines , Etc.					**0.24**			**4.48**	**101.16**	**367.77**
Mauritius								4.46	101.16	325.27
Singapore										42.5
Ethiopia					0.24					
Hongkong								0.02		
Motion Picture And Video Film Production	0.03	8.38	0.37	1.77	0.29	7.65	35.29	65.85	76.44	300.3
United States Of America	0.03	0.06				0.02	7.97	43.52	72.43	279.48
United Kingdom		0.02	0.37	1.77	0.23	0.44	3.84	10.66	3.81	17.13
United Arab Emirates					0.06	2.98	15.28	10.51		2.55
Nepal							0.16	1.13	0.05	0.93
Mauritius		8.3								0.11
Production Of Indigenous Sugar, Boora, Khandsari, Gur, Etc. From Sugar-Cane, Palm Juice , Etc.	0.41								70.1	294.25
Mauritius									70.1	294.25
Vietnam	0.41									
Manufacture Of Iron And Steel In Primary/Semi-Finished Forms.	8.5	4.82	0.23	0.87	65.44	47.94	47.92	60.42	249.88	271.12
United States Of America		0.03				2.47	8.19	33.56	25.28	193.96
China										57.32
United Arab Emirates			0.05		0.27	1.63		0.01	139.74	5.68
Nigeria			0.12	0.56	3.52	4.81	1		0.9	3.88
Singapore				0.31					0.01	3.24

SUB-ACTIVITY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Oil And Gas Field Services, Except Exploration Services Exploration Services Are Classified In Group 894		**1**	**0.2**	**0.05**	**10.34**	**167.23**	**243.34**	**319.52**	**328.15**	**245.75**
China								0.14		156.97
Singapore					8	165	236.89	268.39	249.61	62.5
Oman			0.2	0.05	2.32		0.5	1.7	2.9	10
Myanmar										8.45
Mauritius					0.02		5.23	48.02	35.64	5.84
Activities Not Adequately Defined (Other Than Those In 100)	0.71	0.43	2.8	0.71		52.5	397.03	119.21		238.48
British Virgin Islands						5.75	20.57	5.41		88.66
Singapore		0.01	0.03	0.04		2.17	5.1	0.55		59.05
Isel Of Man						0.96	67.54	43.82		40.28
Hongkong						0.29	5.92	7.7		16.3
United Kingdom		0.03		0.18		8.22	242.65	3.01		13.07
Manufacture Of Nitric Acid, Ammonia, Commercial Ammonium Chloride, Nitrates Of Potassium And Other Basic Chemicals Of Nitrogenous Fertilizer Industry.	1.35	3.26	16.86	77.01	244.56	349.13	49.69	369	13.27	236.77
Mauritius		2.5	16.5	75.22	243.89	347.81	0.15	362.75	10.39	176.64
Netherlands				0.12			36.18	0.03	0.23	55.79
British Virgin Islands					0.08	0.1	0.05	0.32	0.1	1.87
United Arab Emirates	0.59	0.49	0.24	1.31	0.29		1	0.6	2.23	1.5
Indonesia							0.25	0.5		0.45

SUB-ACTIVITY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Manufacture Of Medical, Surgical, Scientific And Measuring Equipment Except Optical Equipment	**0.31**	**0.47**	**0.01**	**0.07**	**3.51**	**71.18**	**2.34**	**46.43**	**3.08**	**229.86**
Mauritius	0.29	0.33						0		223
Germany	0.02					0.16	0.69		1.8	6.08
United States Of America					3.51	0.82	0.22	45.09	0.84	0.46
United Arab Emirates						16.34				0.16
Switzerland									0.04	0.13
Manufacture Of Refined Petrmanufacture Of Refined Petroleum Products	408.59	1027	407.58	600.2	1273.2	1701.93	886.42	2935.56	363.44	229.56
Russia	408.15	251.16	369.32	326.36	1086.09	499.32	364.88	670.4	161.58	121.52
Cyprus						23.79	1	1989.01	41.78	31.43
Singapore				0.01	3.6	1.7	3.91	0.12	2.04	29.84
Libya			9.68	2.37	1.24	3.53	11.81	23.05	39.9	24.07
Mauritius							0	0.01	0.1	8.62
Wholesale Trade In Miscellaneous Goods Not Elsewhere Classified	0.27	0.11	1.02	0.26	3.93	2.84	64.17	27.86	20.33	204.23
United Arab Emirates						0.88	2.64	0.04	16.93	185.01
Singapore							1.05	0.73		6.35
United States Of America	0.02	0.1					0.1	7.51	1.35	5.98
China							0.15			5.59
Hongkong							0.19			0.64
GRAND TOTAL	**999.29**	**1848.35**	**1564.08**	**1991.77**	**7834.61**	**13236.81**	**18446.72**	**16327.68**	**12303.58**	**16402.66**

SUB-ACTIVITY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Manufacture Of Medical, Surgical, Scientific And Measuring Equipment Except Optical Equipment	**0.31**	**0.47**	**0.01**	**0.07**	**3.51**	**71.18**	**2.34**	**46.43**	**3.08**	**229.86**
Mauritius	0.29	0.33						0		223
Germany	0.02					0.16	0.69		1.8	6.08
United States Of America					3.51	0.82	0.22	45.09	0.84	0.46
United Arab Emirates						16.34				0.16
Switzerland									0.04	0.13
Manufacture Of Refined Petrmanufacture Of Refined Petroleum Products	408.59	1027	407.58	600.2	1273.2	1701.93	886.42	2935.56	363.44	229.56
Russia	408.15	251.16	369.32	326.36	1086.09	499.32	364.88	670.4	161.58	121.52
Cyprus						23.79	1	1989.01	41.78	31.43
Singapore				0.01	3.6	1.7	3.91	0.12	2.04	29.84
Libya			9.68	2.37	1.24	3.53	11.81	23.05	39.9	24.07
Mauritius							0	0.01	0.1	8.62
Wholesale Trade In Miscellaneous Goods Not Elsewhere Classified	0.27	0.11	1.02	0.26	3.93	2.84	64.17	27.86	20.33	204.23
United Arab Emirates						0.88	2.64	0.04	16.93	185.01
Singapore							1.05	0.73		6.35
United States Of America	0.02	0.1					0.1	7.51	1.35	5.98
China							0.15			5.59
Hongkong							0.19			0.64
GRAND TOTAL	**999.29**	**1848.35**	**1564.08**	**1991.77**	**7834.61**	**13236.81**	**18446.72**	**16327.68**	**12303.58**	**16402.66**

Source: Data accessed from RBI, EXIM Bank Research

ANNEXURE - 4

QUESTIONNAIRE ON
MAPPING THE EXPERIENCE OF INDIAN COMPANIES IN THEIR EXPOSITIONS ABROAD

Please provide the following information
(3 pages questionnaire)

NAME OF THE ENTERPRISE	
INDUSTRY OPERATING IN	

	SECTOR INVESTED IN	COUNTRY INVESTED IN	MODE OF INVESTMENT*	VALUE (US$ MN)	YEAR
1					
2					
3					
4					

Note:

* Greenfield investment / joint venture/ wholly-owned subsidiary/acquisition/ SPV/ any other structure

- The information will be treated in the strictest confidence; none of your responses will be attributed directly to you or your organization.

PRE-INVESTMENT CONSIDERATIONS (Please tick one)

HOW IMPORTANT THE FOLLOWING FACTORS YOUR FIRM CONSIDERED WHILE VENTURING ABROAD	EXTREMELY IMPORTANT	HIGHLY IMPORTANT	MODERATELY IMPORTANT	LITTLE IMPORTANT	NOT AT ALL IMPORTANT
Resource-Seeking					
• Ensuring security/stability of raw material supplies	☐	☐	☐	☐	☐
• Minimising cost of raw material supplies	☐	☐	☐	☐	☐
• Cheap and competitive unskilled / semi-skilled labour	☐	☐	☐	☐	☐
• Acquisition of managerial /organisational capabilities	☐	☐	☐	☐	☐
• Access to technological know how	☐	☐	☐	☐	☐
Market-Seeking					
• Size of host country market	☐	☐	☐	☐	☐
• Growth prospects / potential of host country market	☐	☐	☐	☐	☐
• Circumventing trade barriers (for e.g. high tariff and import controls in host country making exports from home country less attractive)	☐	☐	☐	☐	☐
• Physical presence in country of main suppliers or customers	☐	☐	☐	☐	☐
• High logistic and transaction cost of exports from home country	☐	☐	☐	☐	☐
• Adapt to local tastes, resources and capabilities	☐	☐	☐	☐	☐
• Access to third country markets (capitalising upon preferential/free trade agreements or geographical proximity)	☐	☐	☐	☐	☐

Efficiency-Seeking					
• Economies of scale and scope	☐	☐	☐	☐	☐
• Taking advantage of difference in availability and relative cost of factor endowments in home and host country	☐	☐	☐	☐	☐
• Risk diversification	☐	☐	☐	☐	☐
• Supportive physical & institutional infrastructure in host country	☐	☐	☐	☐	☐
• High logistic and transaction cost of exports from home country	☐	☐	☐	☐	☐
Strategic-Asset-Seeking					
• Acquisition of global portfolio of physical assets & human competence	☐	☐	☐	☐	☐
• Promote long-term strategic objectives such as sustaining or advancing global competitiveness	☐	☐	☐	☐	☐
• Access to new product lines	☐	☐	☐	☐	☐
• Attractive pricing of target company/brand	☐	☐	☐	☐	☐
Home and Host Country Government Policies					
• Country/political risk in host country	☐	☐	☐	☐	☐
• Attractive inward investment policy regime of host country	☐	☐	☐	☐	☐
• Quality of financial regulation	☐	☐	☐	☐	☐

HOW IMPORTANT THE FOLLOWING FACTORS YOUR FIRM CONSIDERED WHILE VENTURING ABROAD	EXTREMELY IMPORTANT	HIGHLY IMPORTANT	MODERATELY IMPORTANT	LITTLE IMPORTANT	NOT AT ALL IMPORTANT
• Favourable tax regulations in host country	☐	☐	☐	☐	☐
• Strong legal and property rights in host country	☐	☐	☐	☐	☐
• Liberal exchange rate regulations in host country	☐	☐	☐	☐	☐
• Opportunities arising out of liberalisation in host country	☐	☐	☐	☐	☐
• Regulatory changes in home economy	☐	☐	☐	☐	☐
• Adverse business conditions in home country	☐	☐	☐	☐	☐
Inflation, Interest Rate and Exchange Rate Considerations					
• Inflation differential between home and host country	☐	☐	☐	☐	☐
• Host country currency stability	☐	☐	☐	☐	☐
• Interest rate differential between home and host country	☐	☐	☐	☐	☐
• Access to medium and long term finance from host country financial markets	☐	☐	☐	☐	☐
Other Reasons					
• Home market for certain niche products too small / saturated	☐	☐	☐	☐	☐

• Competition from foreign and local companies in home country	☐	☐	☐	☐	☐
• Inclusion of 'Exit Clause' while entering into a JV with a foreign entity	☐	☐	☐	☐	☐
• Increased willingness to take risk	☐	☐	☐	☐	☐
• Any other reasons (please specify)					

POST-INVESTMENT EXPERIENCE (Please tick one)

HOW HAS BEEN YOUR EXPERIENCE POST -INVESTMENTS IN THE HOST COUNTRY	EXCELLENT	VERY GOOD	GOOD	AVERAGE	UNSATISFACTORY
Institutional Efficiency and Bureaucracy in Host Country					
• Macroeconomic and policy stability					
• Time taken to receive necessary approvals					
• Cooperation from Government entities					
• Business ethics & transparency					
• Corruption and bribery					
• Land acquisition procedures in host country					
• Legal system					
• Access to host country financial markets					
• Implementation of incentives, if any on investment					
Market in the Host Country					
• Ease of tapping the host country market					
• Adjusting with market's requirements (packaging, labelling, etc.)					
• Revenue realisation from host market					
• Enhancement in market share					
Human Resource in Host Country					
• Adjustment to Management Practices					
• Labour laws / flexibility					
• Work Culture Integration					
• Labour issues abroad (incl. bonus, incentives)					

• Quality of manpower / talent					
• Performance of local workers/ semi-skilled labour					
• Performance of local professional staff					
• Retrenchment experience in the host country					
Taxation Policies in the Host Country					
• Corporate tax rate					
• Repatriation of income with minimal tax leakages					
• Changes in tax laws post-investment					
• Transfer pricing					
Impact on Parent Company					
• Financial and performance gains					
• Developing networks and relationships					
• Efficiency gains					
• Obtention of created assets					
• Increase in competitiveness					
Treatment in the Host Country					
• Fair & equitable treatment vis-à-vis domestic players					
• Receptiveness from foreign partner (if any)					
Others					
• Effectiveness in absorbing technical knowhow					
• Adjustment to corporate governance rules					
• Creation of linkages with host country firms					
• Any other experiences (please specify)					

OVERALL EXPERIENCE	Yes	No
• Comfortable with the investment made		
• Given an opportunity will you invest in the same country		

FUTURE INVESTMENT PROSPECTS (Please tick one)

FUTURE INTENTIONS FOR OVERSEAS INVESTMENTS	SUB-STAN-TIAL IN-CREASE	MOD-EST IN-	STAG-NATE / FLAT	MARGINAL DECLINE	STEEP DECLINE
Your perception on trend in overseas investments in the short term (<12 months)					
Your perception on trend in overseas investments in the medium to long term					
SCALE OF FUTURE OVERSEAS INVESTMENTS	**<USD 10 MN**	**USD 10 – 50 MN**	**USD 50 – 100 MN**	**USD 100 – 500 MN**	**>USD 500 MN**
Planned Investments if any may range around					
MODE OF INVESTMENT	**Green-field**	**Joint Venture**	**Acquisi-tion**	**Wholly Owned Sub-sidiary**	**SPV**
Preferred structure of investment					
GEOGRAPHICAL LOCATION	**Asia-Pacific**	**Europe**	**USA/ Canada**	**Africa**	**Latin America**
Preferred destination for future investments					

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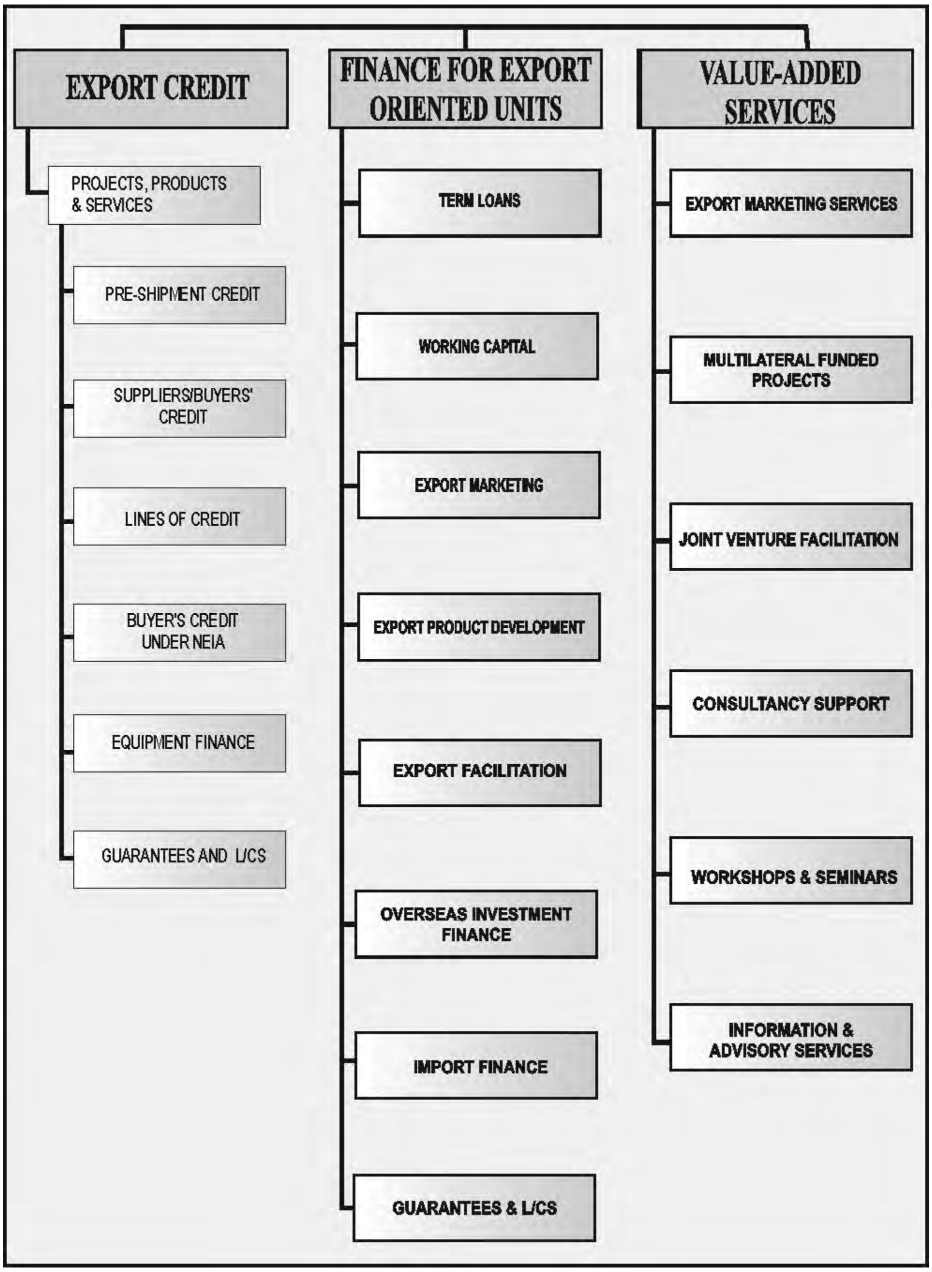

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