DECONSTRUCTING INDIAN OVERSEAS FOREIGN DIRECT INVESTMENTS

Historical & Contemporary Trends

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ABBREVIATIONS

ADRs	American Depositary Receipts
ASEAN	Association of Southeast Asian Nations
DEA	Department of Economic Affairs
DIPP	Department of Industrial Policy and Promotion
DTAA	Double Taxation Avoidance Agreement
EMNEs	Emerging Multinational Enterprises
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FERA	Foreign Exchange Regulation Act
GDP	Gross Domestic Product
GDRs	Global Depository Receipt
GOI	Government of India
ICT	Information, Communication and Technology
IMF	International Monetary Fund
JVs	Joint Ventures
LNG	Liquefied Natural Gas
LRS	Liberalized Remittance Scheme
M&As	Mergers and Acquisitions
MRTP	Monopolies and Restrictive Trade Practices
NTBs	Non-tariff barriers
OECD	Organisation for Economic Co-operation and Development
OFDI	Overseas Foreign Direct Investment
R&D	Research and Development
RBI	Reserve Bank of India
UAE	United Arab Emirates
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
USD	US Dollar
WOSs	Wholly-Owned Subsidiaries

1. INTRODUCTION

Since the latter half of the 20th century, foreign direct investment (FDI) has emerged as an important strategy for cross-border expansion of business enterprises, especially for those based in developing economies. The share of developing economies in global overseas FDI (OFDI) flows increased from 2.5 per cent in 1981 to 37.7 per cent in 2014.[1] Not only has the volume of OFDI from emerging multinational enterprises (EMNEs) grown phenomenally in recent decades, but a significant change has been observed in the nature of such flows.

For instance, while a significant proportion of OFDI from EMNEs was concentrated in other developing regions until the late 1980s, the bulk of these investments came to be geographically confined to developed economies over the following decade. This phenomenon does reflect the gradual evolution of EMNEs, which has predominantly occurred through phased elimination of restrictions in home countries and concomitant reforms in global economic dynamics (Athukorala 2009). Over time, the comparative advantage of EMNEs has dramatically shifted from less-technical and more labour intensive activities to knowledge-based sectors requiring the highest levels of technical sophistication.

In the context of internationalization of developing economies, India's evolution in growth and nature of OFDI holds utmost significance. While India has traditionally been an attractive destination of FDI, it has also emerged as an important source of FDI particularly after the introduction of economic reforms in 1991.

Table 1 presents the magnitude of India's OFDI flows alongside those from Brazil, China and South Africa from 1985 to 2015. Although the level of India's OFDI was quite miniscule vis-à-vis other developing countries between 1985 and 1995, it had surpassed the OFDI levels of South Africa and Brazil by 2005, thereby, raising its contribution to global and developing economies' OFDI flows.

India's OFDI rose steadily until 2010 but was detrimentally affected between 2011 and 2015. This could be most possibly attributed to the downturn that global financial markets witnessed during this period, which also adversely impacted OFDI from other emerging markets such as South Africa and Brazil. Nevertheless, it is important to note that in terms of its share in India's GDP, OFDI from India almost attained its pre-crisis level (of 2005) in 2015, indicating that such flows have now started to recover.[2]

Given that Indian firms have contributed to overseas transnational investments since the 1960s and have witnessed a number of key structural amendments in domestic foreign policy that have considerably influenced foreign investment flows, India offers the most insightful case study to assess OFDI among developing countries. While the magnitude of OFDI has risen remarkably over the years, a more intriguing observation is the change in character of India's OFDI flows, which clearly reflects the overwhelming transformation that Indian enterprises have demonstrated in terms of their orientation to invest in overseas long-term investments.

Against this backdrop, this report makes an attempt to evaluate the magnitude and change in the nature of India's OFDI paradigm since the early 1960s. The remaining sections of the report are organized as follows: Section 2 puts forth the definition of FDI along with serious data-related challenges that surround its accurate estimation. Section 3 discusses the origin of India's OFDI, along with a preliminary discussion on the evolution of its policy architecture after the 1980s. Most

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[1] http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx (27/2/2018, 11:30 am)

[2] Before 2000-01, India's OFDI and portfolio investment data were not reported separately. Moreover, as we shall see in section 2, there are a number of caveats which affect the validity of OFDI estimates. Therefore, OFDI estimates compiled from UNCTAD may not be perfectly accurate for India (especially for the pre 2000-01 period) and may not match estimates provided by official data sources. We have presented these estimates here only to give an idea of India's OFDI vis-à-vis other developing countries.

importantly, presents an in-depth analysis on the character of India's OFDI in the two distinct 'waves' of liberalization.

Given their fundamental impact on the magnitude and nature of OFDI, Section 4 elaborately captures India's evolving political and regulatory regimen governing overseas investment flows. Section 5 presents a detailed case study of India's OFDI in African countries from 2012 to 2016. Finally, Section 6 provides a conclusion that captures a few reflections.

Table 1: India's OFDI in a developing country context, 1985-2015

	1985	1990	1995	2000	2005	2010	2015
OFDI (in million USD at current prices)							
World	62,103	243,878	356,889	1,164,956	841,092	1,386,061	1,594,317
Developing economies	3,725	13,111	52,307	90,003	118,351	373,906	389,267
Developed economies	58,378	230,767	303,966	1,071,786	704,694	961,715	1,172,867
Brazil	81	625	1,096	2,282	2,517	22,060	3,092
China	629	830	2,000	916	12,261	68,811	127,560
South Africa	51	27	2,498	271	930	-76	5,744
India	3	6	119	514	2,985	15,947	7,572
% share in global OFDI							
Brazil	0.13	0.26	0.31	0.20	0.30	1.59	0.19
China	1.01	0.34	0.56	0.08	1.46	4.96	8.00
South Africa	0.08	0.01	0.70	0.02	0.11	-0.01	0.36
India	0.00	0.00	0.03	0.04	0.35	1.15	0.47
% share in developing economies' OFDI							
Brazil	2.18	4.76	2.09	2.54	2.13	5.90	0.79
China	16.88	6.33	3.82	1.02	10.36	18.40	32.77
South Africa	1.37	0.21	4.77	0.30	0.79	-0.02	1.48
India	0.08	0.05	0.23	0.57	2.52	4.27	1.95
% share in GDP							
Brazil	0.04	0.15	0.14	0.35	0.28	1.00	0.17
China	0.20	0.21	0.27	0.08	0.53	1.13	1.14
South Africa	0.09	0.02	1.59	0.20	0.36	-0.02	1.83
India	0.00	0.00	0.03	0.11	0.37	0.97	0.36

Source: UNCTAD

2. DEFINITION AND SHORTCOMINGS OF OFDI DATA

Before undertaking a comprehensive analysis of India's OFDI, it is important to develop a sound theoretical understanding of the concept and discuss some important data-related challenges with regard to OFDI in the Indian context.

OECD's *Detailed Benchmark Definition of FDI* (3rd edition, 1996) and IMF's *Balance of Payments Manual* (5th edition, 1993) have put forward the following definition of FDI:

"FDI is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)…A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who is a resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10% for an incorporated enterprise, or its equivalent for an unincorporated enterprise)." [3]

Broadly speaking, FDI is composed of three distinct modes of financing, namely, equity capital (which refers to purchase of an enterprise's share by a foreign investor in a foreign country), reinvested earnings/profits in the host country (share of earnings of a foreign direct investor which is neither given out as dividends by foreign affiliates nor remitted to the home country), and intra-company debt transactions (short or long-term borrowing and lending of finances between foreign direct investor and affiliate enterprises). Even though there have been attempts to reflect these three aspects of FDI in national and global databases, several concerns are yet to be addressed.

For instance, the Department of Economic Affairs (DEA) under Government of India's (GOI) Ministry of Finance, provides monthly and annual estimates of actual FDI outflows as well as approvals. Although the data repository provides rich insights into favoured destinations and sectors of investment at a broad level, it does not furnish a detailed and longitudinal account of actual/ approved value of OFDI with country or sector-wise disaggregation.

On the other hand, month-wise OFDI statistics compiled by the Reserve Bank of India (RBI) provide accurate observations on the extent of financial commitments, which is often far different from the actual amount of OFDI flows. It is particularly important to mention that OFDI data reported by official government sources is provisional and subject to change on account of online reporting made by Authorized Dealer Banks.

Thus, the dynamic nature of OFDI data can make analyses challenging and may even render research efforts futile if it changes drastically over time. Moreover, India's OFDI data may not completely capture the amount of funds further invested by foreign affiliates in overseas destinations. It is also worthwhile to highlight that India's OFDI in tax-havens like Mauritius may not always be utilized for expanding production base of businesses.

Such investments may be redirected for investment to other host countries or routed back to India for reinforcing production/management operations in parent companies. Therefore, most of India's publicly available data on OFDI should be interpreted carefully.

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[3] Retrieved from UNCTAD's 'World Investment Report 2007: Transnational corporations, extractive industries and development'.

3. TRENDS IN INDIA'S OFDI: ORIGIN AND EVOLUTION

The origin of India's OFDI can be traced back to the early 1960s. During that time, Sri Lanka and some African countries had emerged as attractive investment destinations for a selected number of Indian business conglomerates like Tata, Birla and Kirloskar, which sought to expand their production bases by investing in cross-border activities.

Even though a few Indian enterprises had begun to assume a global foothold through direct overseas investments since the 1960s, OFDI became a prominent feature of Indian businesses only in the aftermath of economic reforms of 1991. For instance, according to OFDI estimates provided by UNCTAD, India's OFDI flows dramatically increased from USD 44 million during 1980-89 to USD 700 million during 1990-99, and went up to USD 79.3 billion during 2000-09. India's OFDI stock took a major leap from USD 78 million in 1980 to USD 1.7 billion in 2000, and stood at USD 96.9 billion in 2010.[4]

The phenomenal upsurge in India's OFDI flows in the 1990s and consecutive decades can, to a considerable degree, be attributed to a dramatic shift in India's domestic and foreign policy environment. Although Section 4 will elaborately discuss the erstwhile and current policy framework of the country, it is important to note that prior to the 1990s, India's restrictive macroeconomic, trade and industrial policies were predominantly responsible for the inward-orientated nature of Indian businesses which often led them to seek protection from incoming FDI and imports. In the 1990s, however, significant reforms in trade policy like the abolition of import licensing system, gradual removal of non-tariff barriers (NTBs), major reductions in tariff rates, etc. led to an increased inflow of cheaper imports, which compelled Indian firms to become more competitive in the global market.

With respect to its inward FDI policy, India implemented important reforms such as introducing automatic approval channel for FDI proposals and steadily widening its scope to a range of new industries, liberalizing new sectors to foreign investments, withdrawing stringent performance requirements for foreign firms functioning in India, etc. which provided favourable conditions for greater inflow of FDI and expansion of operations for existing foreign businesses (Pradhan 2005). All such measures to progressively liberalize the economy drove Indian firms to expand globally by using OFDI either to acquire foreign technology/brand name (also called brownfield investments) or create new infrastructure for supporting overseas trade activities (greenfield investments).

Not only did the economic reforms of 1991 lead to an exponential increase in the magnitude of Indian OFDI, but they also altered the geographical focus and sectoral composition of these flows. Since there is an evident contrast in the nature of OFDI between the pre-liberalization and post-liberalization phases, the period from 1975 to 1990 is often called the 'First Wave' and that from 1991 the 'Second Wave' of internationalization of Indian firms.[5]

The First Wave of India's internationalization (1975-1990)

At the beginning of our forthcoming discussion, it is important to bring to the fore that we have discussed the character of India's OFDI not on the basis of actual OFDI flows but by making use of official approval data collected from several data sources (by Pradhan 2005 and 2017). Hence, this discussion is intended to provide a broad overview of the character of India's OFDI with respect to parent companies' preference of host countries and broad sectors of investment. As India's OFDI

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[4] http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740 (11/2/2018, 10:30 hours).

[5] Prior to 1975, India's OFDI was miniscule and sporadic and often remains beyond the scope of data-driven analyses.

and portfolio flows were not reported separately before 2000-01, it is challenging to ascertain accurate estimates for actual OFDI from India until the year 1999-2000.[6] We therefore discuss the magnitude of India's OFDI from 2000-01 onwards.

Systematic rise in India's OFDI began in the late 1970s when the industrial licensing system turned more unfavourable for Indian firms. The introduction of the Monopolies and Restrictive Trade Practices (MRTP) Act in 1969 and Foreign Exchange Regulation Act (FERA) in 1973 created a hostile political environment for the functioning of large private-owned Indian business enterprises. Moreover, rising costs of local and imported inputs and retarded growth of national economy gave an additional thrust to domestic firms to expand production to new overseas destinations.

The First Wave of India's internationalization witnessed a clear-cut flow of India's OFDI to trans-border manufacturing activities. Almost 65 per cent of India's approved OFDI equity between 1975 and 1990 was channeled through the manufacturing sector, around 33 per cent through services sector and a miniscule 2 per cent through firms engaged in primary/extractive activities. Activities requiring low or moderate levels of technological sophistication like fertilizers and pesticides, iron and steel, leather, shoes and carpets, wood and paper, etc. accounted for the bulk of India's approved OFDI equity. In the services sector, financial and leasing services, and hotels and tourism activities claimed the largest amount of India's approved OFDI in this period (table 2).

It is also important to note that most of India's OFDI during this period was largely directed to other developing countries at similar or lower levels of development - nearly 86 per cent of approved OFDI equity and 72 per cent of OFDI approvals could be attributed to developing countries in the First Wave. A further break-up of the regional concentration of India's OFDI reveals that South-East and East Asia accounted for 36 per cent of this investment while Africa was the next largest beneficiary with 17 per cent of India's approved OFDI equity. Moreover, West Asia and Central Asia claimed 10 per cent each, South Asia received 9 per cent whereas Latin America and the Caribbean region remained less attractive for Indian OFDI (table 3).

In terms of countries, Thailand and Singapore were the largest recipients and accounted for almost 12 per cent each of India's approved OFDI in the First Wave, followed by Kazakhstan and Senegal that received nearly 10 and 7 per cent respectively (table 4). These statistics vividly highlight that geographical proximity, linguistic, literary, artistic and historical ties were among the most important factors in determining the locational direction of India's OFDI.

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[6] https://www.rbi.org.in/scriptS/PublicationsView.aspx?id=9479 (21/02/2018, 13:10 hours).

Table 2: Sectoral composition of OFDI flows from India during the First Wave

	No. of approvals (% of total)	Approved equity (% of total)
Exploration and refining of oil	0.4	0.0
Exploration of minerals & precious stones	0.9	1.8
Extractive / primary	**1.3**	**1.8**
Oilseeds, food products & processing	4.4	4.1
Textiles and garments	5.2	4.1
Wood, pulp and paper	1.3	5.2
Leather, shoes & carpets	1.7	9.2
Chemicals, petro- chemicals & paints	7.8	3.5
Drugs and pharmaceuticals	3.5	2.1
Rubber, plastic and tyres	2.6	1.0
Cement, glass and building material	0.9	1.9
Iron and steel	4.4	7.3
Electrical & electronic equipment	2.6	1.0
Automobiles and parts thereof	2.6	1.4
Gems and jewellery	0.4	0.0
Electronic goods & consumer durables	0.9	0.1
Beverages and tobacco	3.0	1.5
Engineering goods & metallurgical items	7.8	3.8
Fertilizers, pesticides and seeds	2.2	18.0
Miscellaneous	4.4	1.2
Manufacturing	**55.7**	**65.3**
IT, communication and software	2.6	2.5
Hotels, restaurants, tourism	10.4	11.2
Civil contracting and engineering services	2.6	0.8
Consultancy	3.0	0.2
Trading and marketing	11.7	5.6
Financial services and leasing	7.4	11.8
Transport services	1.3	0.3
Other professional services	3.0	0.5
Services	**43.0**	**32.9**
Total	**100.0**	**100.0**

Source: Pradhan 2005.

Table 3: Regional distribution of OFDI flows from India during the First Wave

	No. of approvals (% of total)	Approved equity (% of total)
South-East and East Asia	29.3	36.3
South Asia	13.1	9.4
Pacific Islands	1.3	0.1
Africa	12.7	17.0
West Asia	8.3	9.7
Central Asia	1.8	10.4
Central and East Europe	4.8	2.9
Latin America and the Caribbean	0.9	0.3
Developing Countries	**72.1**	**86.1**
Western Europe	17.5	7.8
North America	10.0	6.1
Oceania	0.4	0.0
Developed Countries	**28.0**	**13.9**
Total	**100.0**	**100.0**

Source: Pradhan 2005.

Table 4: Top-20 host countries of India's OFDI during the first wave

	No. of approvals (% of total)	Approved equity (% of total)
Thailand	6.1	12.4
Singapore	8.3	11.9
Kazakhstan	0.9	9.6
Senegal	0.4	7.4
UK	13.5	6.4
USA	10.0	6.1
Indonesia	3.9	5.7
Malaysia	7.4	5.5
Sri Lanka	7.0	4.5
Nigeria	5.7	4.2
Nepal	5.7	4.1
Kenya	3.1	2.0
Russia	3.5	1.9
Saudi Arabia	1.8	1.4
UAE	3.5	1.0
Bangladesh	0.4	0.9
Egypt	0.9	0.5
Bahrain	1.3	0.5
Uzbekistan	0.4	0.3
Panama	0.9	0.3
Subtotal (top-20)	**84.7**	**86.2**
All countries	**100.0**	**100.0**

Source: Pradhan 2005.

One can draw interesting insights from the geographical and sectoral preference of India's OFDI approvals between 1975 and 1990. The concentration of India's OFDI in sectors where less capital intensity is required reflects the nature of evolving Indian businesses which wanted to make optimum use of cheap labour and natural resources and gain from this particular competitive advantage. Since countries in the developed world had already established their competitive advantage in technical sectors globally, less-technical and more-labour intensive products/services could become profitable for Indian companies only by investing in developing countries.

Another significant characteristic of India's OFDI during this phase was that only a small fraction (~13 percent) of approved equity projects had ownership participation of more than 80 per cent in foreign affiliates. Close to 64 per cent of approved projects had ownership partnership of less than 50 per cent, which clearly indicates the ambivalent attitude of Indian firms to invest overseas in a politically hostile and restrictive environment (table 5).

Table 5: Ownership participation of Indian enterprises in foreign affiliates during the First Wave

Equity range	% of approved projects	Cumulative %
0 - 20 %	22.9	22.9
20 - 50 %	40.8	63.7
50 - 80 %	23.8	87.4
80 -100 %	12.6	100.0
Total	**100.0**	

Source: Pradhan 2005.

The Second Wave of India's internationalization (1991 onwards)

I. From 1991 - 2001

After the economic reforms of 1991, India's OFDI underwent a dramatic shift that significantly altered its characteristics. In the first decade (1991-2001) of India's Second Wave of internationalization, the services sector emerged as the largest propeller of India's OFDI equity, claiming almost 60 per cent of its approved value. OFDI routed by India's manufacturing sector plummeted sharply and accounted for 39 per cent of approved OFDI equity during this period. While the First Wave saw the rise of India's fertilizer and pesticide, iron and steel, leather, shoes and carpet industries as the largest trans-border investors in the manufacturing sector, this period witnessed the advent of India's drugs and pharmaceuticals industry which claimed 6 per cent of India's approved OFDI.

The share of fertilizer, pesticide and seeds industry remained the highest among all manufacturing activities, although it dropped sharply from close to 18 per cent in the First Wave to 8 per cent in this period. In the services sector, ICT (information, communication and technology) and software industry were the largest overseas investors with 32 per cent of India's approved OFDI equity, followed by media broadcasting and publishing industry which claimed 17 per cent share of India's approved OFDI. Financial and leasing services and hotels and tourism which were the most important contributors to India's OFDI in the First Wave witnessed a steep decline in their share during this period (table 6).

The Second Wave of India's internationalization also observed a major departure from the First Wave in terms of the geographical focus of OFDI. Around 60 per cent of total approved OFDI equity was accounted for by countries in the developed world, while 51 per cent share of the total went to the UK and US collectively between 1991 and 2001. While the share of Western Europe and North America increased rapidly from 8 and 6 per cent respectively in the First Wave to 34 and 24 per cent respectively in the first decade of Second Wave, countries in the South-East and East Asia witnessed major cutbacks in their approved OFDI shares from 36 per cent in the First Wave to 9 per cent between 1991 and 2001.

During this period, the share of African and Central Asian countries in India's approved OFDI equity was significantly less than the First wave (table 7 and table 8). Thus, geographical and sectoral orientation of India's OFDI during this period clearly indicate the rise of knowledge-based sectors in the Indian economy that sought to harness opportunities offered by service-driven economies in the West.

Table 6: Sectoral composition of India's OFDI during the first decade (1991-March 2001) of Second Wave

	No. of approvals (% of total)	Approved equity (% of total)
Exploration & refining of oil	0.2	1.4
Exploration of minerals & precious stones	0.1	0.0
Extractive	**0.3**	**1.4**
Oilseeds, food products & processing	3.6	1.6
Textiles and garments	6.2	2.6
Wood, pulp and paper	0.4	0.4
Leather, shoes and carpets	2.5	0.7
Chemicals, petrochemicals and paints	3.7	2.2
Drugs and pharmaceuticals	6.4	6.3
Rubber, plastic and tyres	1.8	2.0
Cement, glass and building material	2.3	1.9
Iron and steel	1.8	1.2
Electrical and electronic equipment	2.5	2.1
Automobiles and parts thereof	1.0	0.6
Gems and jewellery	2.2	0.4
Electronic goods and consumer durables	1.1	0.5
Beverages and tobacco	1.4	3.3
Engineering goods and metallurgical items	3.3	1.6
Fertilizers, pesticides & seeds	1.1	7.7
Miscellaneous	7.2	4.3
Manufacturing	**48.3**	**39.4**
IT, communication & software	29.7	31.8
Hotels, restaurants, tourism	2.1	2.6
Civil contracting and engineering services	1.7	0.4
Consultancy	1.2	0.2
Trading and marketing	5.7	2.3
Media broadcasting and publishing	2.4	17.4
Financial services and leasing	3.8	2.2
Transport services	1.7	1.1
Other professional services	3.2	1.2
Services	**51.5**	**59.2**
Total	**100.0**	**100.0**

Source: Pradhan 2005.

Table 7: Regional distribution of OFDI flows from India during the first decade (1991-March 2001) of Second Wave

	No. of approvals (% of total)	Approved equity (% of total)
South-East and East Asia	14.8	9.4
South Asia	7.7	3.7
Pacific Islands	0.0	0.0
Africa	9.9	12.1
West Asia	7.2	8.8
Central Asia	1.9	1.2
Central and East Europe	2.9	1.0
Latin America and the Caribbean	1.4	4.2
Developing Countries	**45.9**	**40.4**
Western Europe	22.1	34.0
North America	29.2	24.2
Oceania	2.0	0.4
Other Developed Countries	0.8	1.1
Developed Countries	**54.1**	**59.7**
Total	**100.0**	**100.0**

Source: Pradhan 2005.

Table 8: Top-20 host countries of India's OFDI during the first decade (1991- March 2001) of Second Wave

Country	No. of approvals (% of total)	Approved equity (% of total)
UK	13.0	26.6
USA	28.8	24.0
Mauritius	7.2	9.7
Oman	0.7	3.8
Bermuda	0.5	3.6
Singapore	7.5	3.1
Hong Kong	2.3	3.0
UAE	4.8	2.6
Sri Lanka	3.2	2.3
Netherlands	1.8	2.2
Iran	0.1	1.4
Austria	0.4	1.1
Malaysia	2.2	1.1
Nepal	2.9	1.0
Italy	0.4	1.0
Thailand	1.0	0.9
Uzbekistan	0.9	0.8
Saudi Arabia	0.5	0.7
Germany	2.7	0.7
Ireland	0.4	0.7
Subtotal (top-20)	**81.4**	**90.2**
All countries	**100.0**	**100.0**

Source: Pradhan 2005.

Furthermore, the fact that almost 57 per cent of approved OFDI cases during this decade had ownership participation in the 80-100 percent range and 76 per cent had ownership involvement above 50 per cent highlights the liberalized political climate in the country that gave a major fillip to India's overseas investments (table 9).

Another major distinction between the First and Second Waves could be observed in the type of investments made by Indian investors. While over 80 per cent of India's OFDI was greenfield in nature in the First Wave, entry into foreign markets primarily happened through foreign acquisitions/ brownfield investments in the Second Wave (Hattari and Rajan 2010).

Table 9: Ownership participation of Indian enterprises in foreign affiliates during the first decade (1991-March 2001) of Second Wave

Equity range	% of approved projects	Cumulative %
0 - 20 %	3.7	3.7
20 - 50 %	20.6	24.2
50 - 80 %	18.9	43.1
80 -100 %	56.9	100
Total	**100**	

Source: Pradhan 2005.

II. From 2000-01 to 2017-18

As mentioned before, actual volume of OFDI from India can be assessed only after the year 1999-2000 since data for OFDI and portfolio investments were not disaggregated until then. The enactment of Foreign Exchange Management Act (FEMA) in 2000 further liberalized the political framework by systematically raising per annum upper limits for overseas investments under the automatic route. From 2000-01 to December 2017, actual amount of India's OFDI flows was roughly estimated at USD 167 billion.[7]

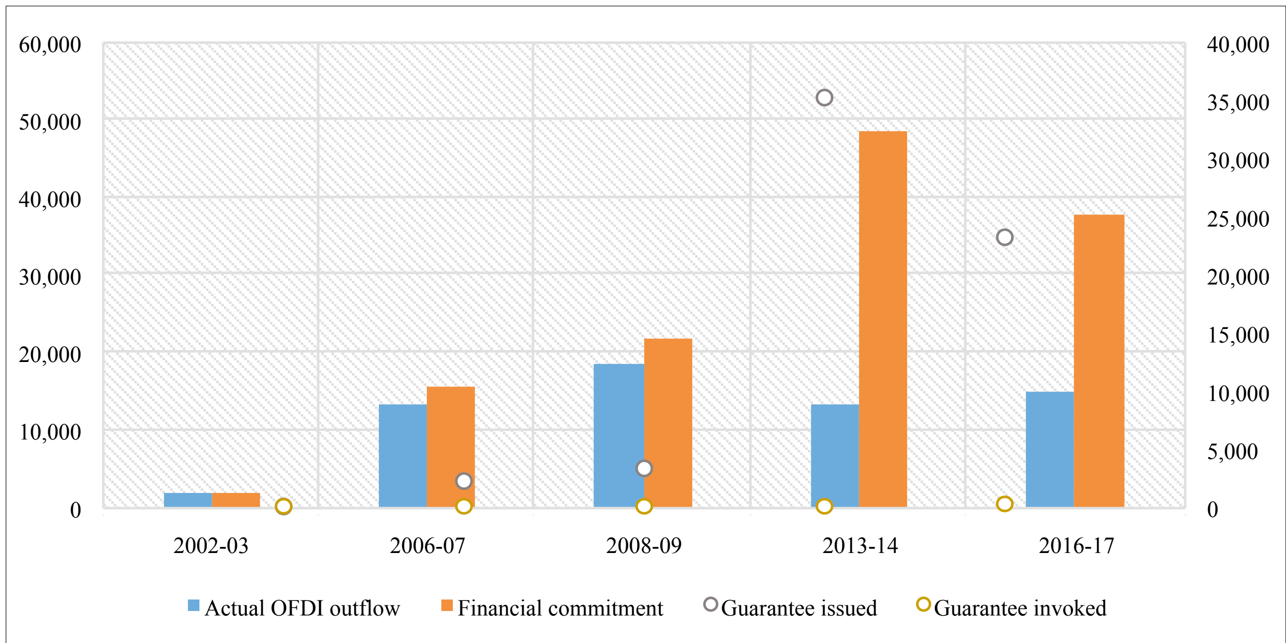
Although the level of OFDI had steadily risen for most part of this period, a sharp dip was observed in first half of the decade starting from 2011-12. This particular phenomenon could be most convincingly attributed to the global financial stress that adversely impacted the risk appetite of Indian firms and reduced their propensity to invest in long-term investments abroad. The amount of India's OFDI reduced from USD 16.8 billion in 2010-11 to USD 10.9 billion in the following year and further dipped to USD 7.1 billion in 2012-13.

In 2013-14, actual level of OFDI from India showed some signs of recovery and was recorded at USD 13.4 billion. However, it again slumped to USD 6.8 billion in 2014-15, which was the lowest estimated level of OFDI between 2011 and 2015. Nevertheless, India's OFDI has begun to improve and was estimated at USD 14.8 billion in 2016-17.

Another noteworthy feature in this period is the rise in the amount of non-fund mode of financing OFDI, which happens through 'guarantees issued' by parent enterprises in India to their affiliates abroad. Even though this mode has increasingly exceeded the levels of fund-related modes (equity and debt) - which has subsequently led to a remarkable increase in the level of financial commitment - actual OFDI outflows have remained much lower as the invocation of these issued guarantees has been negligible (Rajan and Yanamandra 2015; Khan 2012). Figure 1 explicitly presents this recent phenomenon in India's OFDI by highlighting the difference between financial commitment and actual OFDI flows. This difference actually captures the huge deviation between guarantees issued and guarantees invoked for the selected years.

[7] Calculated on the basis of estimates released by RBI and DEA, Ministry of Finance (GOI), various issues.

Figure 1: Composition of India's OFDI (in million USD), selected years

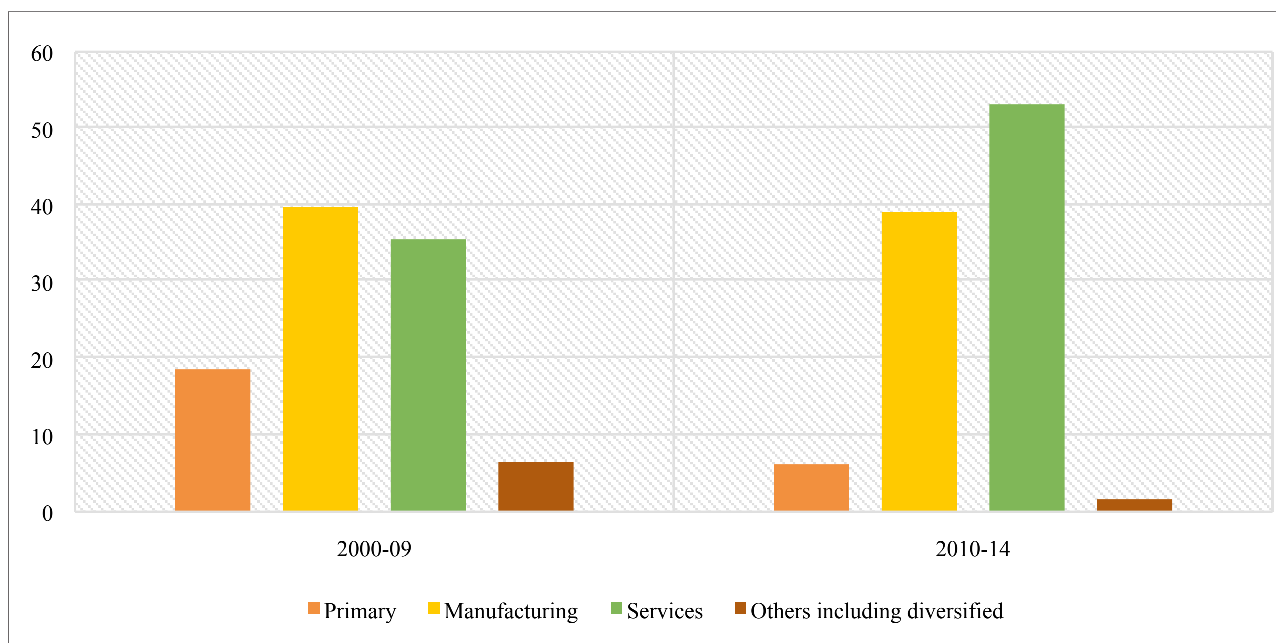


Source: Compiled from Khan (2012) and various issues of DEA, Ministry of Finance, GOI.

Nature of India's OFDI from 2000 to 2014

Observations regarding the sectoral, destination and ownership preferences of Indian overseas investors are interesting to note especially at the advent of the twenty-first century. In terms of the level of India's approved OFDI equity, investments from the primary sector were estimated at 19 per cent and 6 per cent of approved OFDI in 2000-09 and 2010-14 respectively. India's manufacturing sector claimed 40 per cent and 39 per cent of India's approved OFDI in 2000-09 and 2010-14 respectively while the service sector accounted for 35 per cent and 53 per cent of approved equity in these 2 reference periods respectively (Figure 2).

Figure 2: Sectoral composition (%) of India's OFDI, 2000-14



Source: Pradhan 2017.

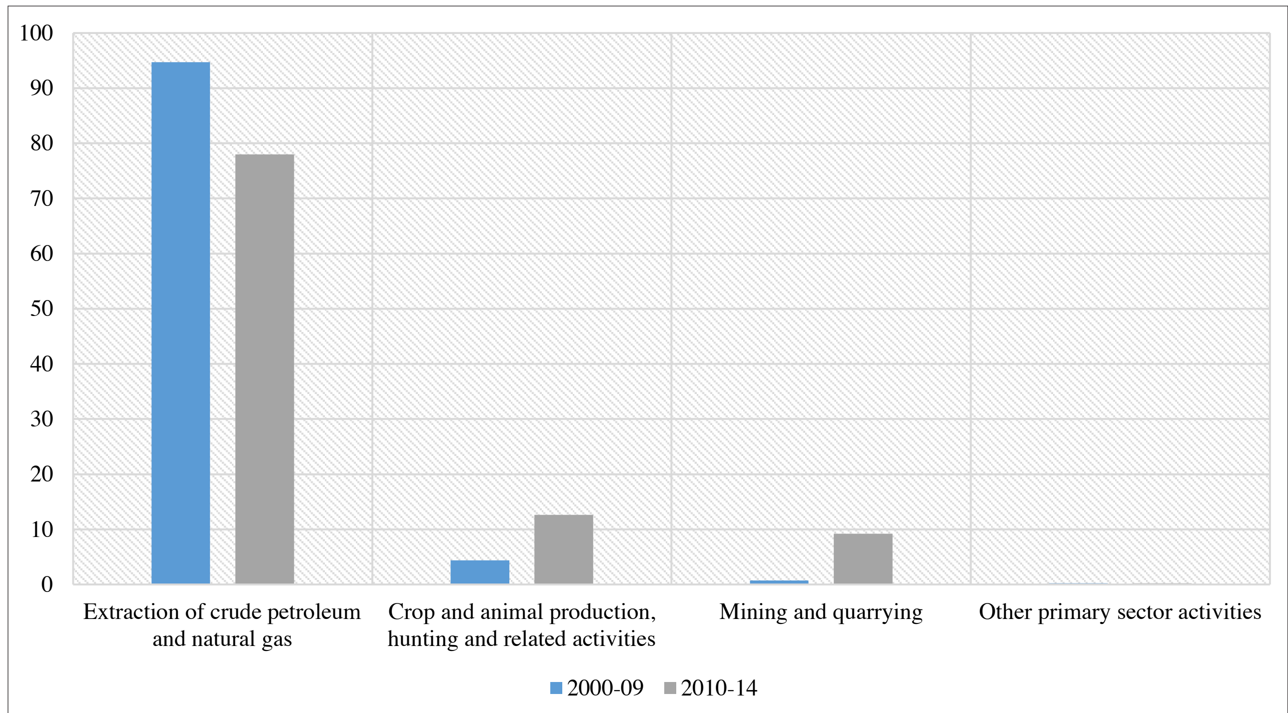
It is important to highlight that although the share of primary activities was almost insignificant in the First Wave and first decade of the Second Wave, the primary sector was indeed a prominent contributor to India's OFDI especially in 2000-09. Close to 95 per cent of primary sector OFDI in 2000-9 and 78 per cent in 2010-14 was routed through firms engaged in extractive activities. Due to its consistent economic growth, growing demand for energy, a rising dependence on energy imports and saturation is reached in domestic crude oil and gas sectors, India has increasingly channeled direct investments to extractive activities abroad through its publicly-owned petroleum and natural gas companies (Figure 3).

On the other hand, India's manufacturing sector seems to have evolved over time. Complex, technically-advanced industries dealing with manufacture of pharmaceuticals, medicinal chemical and botanical products, basic metals and fabricated metal products, coke and refined petroleum products, etc. have emerged as important overseas investors in 2000-09 and 2010-14, subsequently displacing traditional investors like fertilizer and pesticide industries (table 10).

This may be attributed to favourable conditions of economic growth in the country which have promoted technically-intensive industries and supported cross-border investments to facilitate domestic exports by developing sales and marketing channels abroad. While manufacturing had overtaken services in terms of approved OFDI in 2000-09, service sector rebounded to become the leading overseas investment sector in 2010-14.

Within the service sector, ICT and software publishing enterprises have continued to be major global investors in 2000-09 and 2010-14, accounting for 44 per cent of OFDI (combined) in service sector in the former reference period and 49 per cent in the latter. Indian firms engaged in construction activities have increasingly invested abroad and accounted for the second largest share of India's service sector OFDI in 2010-14 (table 11).

Figure 3: Composition (%) of India's OFDI flows in primary sector, 2000-14



Source: Pradhan 2017.

Table 10: Composition (%) of India's OFDI in manufacturing sector, 2000-14

	2000−09	2010−14
Basic metals and fabricated metal products	8.4	20.9
Chemicals and chemical products	9.7	8.7
Coke and refined petroleum products	5.1	20.7
Computer, electronic and optical products	5.1	3
Electrical equipment	1.8	3.9
Food products, beverages and tobacco	5.4	4.2
Gems and jewelry	1.4	1.7
Leather and related products	0.1	0.5
Machinery and equipment	14.4	7.3
Motor vehicles, trailers and other transport equipment	21.5	3.7
Other non-metallic mineral products	0.9	2.4
Paper and paper products	0.6	2.2
Pharmaceuticals, medicinal chemical and botanical products	17	13.9
Printing and reproduction of recorded media	0.2	0
Rubber and plastics products	3.6	2.2
Textiles and wearing apparel	3.7	4.2
Wood, products of wood and cork, straw and plaiting materials	0	0.1
Other manufacturing	1.2	0.5
Total manufacturing	**100**	**100**

Source: Pradhan 2017.

Table 11: Composition (%) of India's OFDI in services sector, 2000-14

	2000–09	2010–14
Accommodation and food services	0.7	0.9
Administrative and support services	4.0	5.1
Communication services	14.5	41.5
Construction	9.3	11.1
Education	0.2	0.1
Electricity, gas and water	5.6	4.3
Financial and insurance activities	10.9	7.7
Human health activities	0.3	1.4
IT and IT-enabled services, including software publishing	29.3	7.3
Legal and accounting activities	0.3	0.5
Professional, scientific and technical activities	1.8	2.1
Real estate activities	2.9	0.9
Transportation and storage	8.1	7.5
Wholesale and retail trade	8.3	7.0
Other services	3.8	2.6
Total services	**100**	**100**

Source: Pradhan 2017.

The most salient feature of India's OFDI between 2000 and 2014 is the shift in its geographical focus. While the UK and US had been attractive destinations for India's OFDI in the First Wave and first decade of the Second Wave, they witnessed steep declines in their share of OFDI approvals over 2000 to 2014. On the other hand, Europe accounted for the maximum amount of approved OFDI from India (32 per cent) in 2000-14, while South-East Asian and Eastern-African countries were the second-largest (21 per cent) and third-largest (19 per cent) beneficiaries in terms of OFDI approvals during this period respectively. Singapore and Mauritius were the top-2 countries with respect to India's OFDI approvals during this period, accounting for 20 per cent and 18 percent of OFDI approvals respectively.

Further, in 2000-14, Netherlands claimed 54 per cent of India's approved OFDI in Europe, thereby emerging as the most preferred host country for India's OFDI in the continent (Pradhan 2017). In terms of India's actual OFDI flows from 2014-15 to December 2017, Mauritius, Singapore, USA, UAE and Netherlands were the top recipients of India's OFDI. Mauritius and Singapore together accounted for almost 40 per cent of India's OFDI which amounted to USD 15.9 billion for this period (table 12).

The preference of host economies for OFDI shows that from the perspective of parent company enterprises in India, favourable investment climate is crucial for OFDI. India has bilateral investment treaties with Mauritius, Singapore, Netherlands, Switzerland, Cyprus, etc. that address importance concerns like double-taxation avoidance and offer low tax rates and access to international financial markets to overseas investors from India.

Table 12: Top-10 destinations for India's actual OFDI flows, 2014 to December 2017

	ODI (in USD Million)				Cumulative ODI (April 2014 - December 2017)	
	2014-15	2015-16	2016-17	Apr 2017-Dec 2017	In USD Million	As % of total ODI to all countries (Apr'14 – Dec'17)
Mauritius	652	1,747	4,872	765	8,036	20
Singapore	1,592	1,315	2,833	2,144	7,884	20
USA	1,239	1,649	1,785	982	5,655	14
UAE	458	1,750	867	266	3,341	8
Netherlands	732	1,146	731	625	3,235	8
UK	334	641	1,330	619	2,923	7
Switzerland	361	678	492	193	1,723	4
Russia	2	223	312	378	914	2
Jersey	211	99	95	80	485	1
British Virgin Islands	107	127	102	123	459	1
Total ODI to top-10 countries (in million USD and % of total)	**5,688**	**9,376**	**13,419**	**6,175**	**34,657**	
	84	**88**	**91**	**84**	**88**	
Total ODI to all countries	**6,803**	**10,620**	**14,795**	**7,331**	**39,549**	

Source: DEA, Ministry of Finance, GOI, Dec 2017 issue.

An interesting feature of India's OFDI is reflected in the enhanced risk appetite and confidence of Indian firms to invest overseas by seeking majority ownership in foreign affiliates. This was in sharp contrast with the First Wave when Indian enterprises evidently showed risk aversion to foreign investments. In 2010-14, wholly-owned subsidiaries (WOSs) accounted for 69 per cent of OFDI approvals. For the same period, 3,395 outward-investing Indian firms sought 100 per cent ownership in foreign affiliates and only 1,622 sought to enter foreign markets through joint ventures (JVs) (Pradhan 2017).

The preference of Indian firms to assume complete ownership in foreign affiliates could be attributed to the liberalized political climate in home country and apprehensions to protect sophisticated indigenous research and development (R&D). It is also worthwhile to mention that while Indian enterprises have increasingly tried to expand their presence in markets of developed economies through mergers and acquisitions (M&As), greenfield investments is the preferred mode of entry in developing countries (Khan 2012). This is probably due to the fact that markets in developed countries are well-established and usually do not require greenfield investments from overseas investors.

4. OFDI LEGISLATIVE FRAMEWORK AND POLICIES IN INDIA

The RBI defines OFDI as, contribution to the capital or subscription to the Memorandum of Association of a foreign entity or, purchase of existing shares of a foreign entity either by market purchase or private placement or through stock exchange – in the form of JVs and WOSs – suggesting a long-term interest in the foreign entity, excluding portfolio investment.

As stated in previous sections, the broad trends suggest that the primary drivers of OFDI have remained JVs, WOSs, and provision of financial support to promote exports. Also, post 1991, OFDI has emerged as an important pathway for private as well as public enterprises to garner greater market access and gain global presence in the areas of mutual synergies and knowledge. Such investments have resulted in enhanced economic integration via business cooperation between India and the other countries, increased foreign trade and entitlements on such investments are an important source of foreign exchange earnings (RBI 2016).

In India, clause (a) of sub-section (3) of Section 6 of the FEMA, along with Foreign Exchange Management (Transfer or Issue of Any Foreign Security) (Amendment) Regulations (2004) regulate investment by Indian entities in overseas JVs or WOSs as well as investment in shares and securities issued outside India by an Indian resident.[9] The RBI also issues directions to Authorized Persons through AP (DIR series) laying down the modalities to conduct foreign exchange business within the regulatory framework.

Under the Automatic Route or the Approval Route (see Figure 4), these legislations facilitate OFDI in any bona fide activity in which an Indian party has experience and expertise, except real estate and banking businesses. For undertaking activities in the financial sector, certain additional conditions specified in Regulation 7 of Foreign Exchange Management (Transfer or Issue of Any Foreign Security) (Amendment) Regulations (2004) are to be complied with. Further, a comprehensive document by RBI titled, 'Master Direction – Direct Investment by Residents in JVs and WOSs abroad' compiles all important instructions of circulars and notification relating to OFDI policies in India.

The quantum of OFDI is greatly influenced by underlying legislations and policies, thereby a series of reforms measures have been undertaken by the GOI to provide greater flexibility for Indian parties to make remittances overseas for their overseas expansion including – facilitating funding of overseas investments, liberalizing investment policies, strengthening institutional mechanism, fostering deeper international cooperation, etc. In order to understand the influence of policies and legislations on trends and diversification of OFDI, it is pertinent to examine the policy evolution in two-fold ways (in line with Section 3) by first understanding the broad policies in pre-liberalization phase, and second, by delving into different phases in the post-liberalization phase.

Pre-liberalization phase

In 1969, the GOI issued first formal guidelines on overseas direct investment, under which only minority participation in turnkey projects was permissible involving no cash remittances (Gopinath

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[4] Individual resident of India are allowed purchase / acquisition of securities through,

(a) funds held in the Resident Foreign Currency account;
(b) bonus shares on existing holding of foreign currency shares;
(c) foreign currency resources outside India when not a permanent resident in India;
(d) sell the shares so purchased or acquired, and
(e) a resident Indian can remit (up to the limit as laid by the RBI) per financial year under the Liberalized Remittance Scheme (LRS), for permitted current and capital account transactions including purchase of securities and also setting up/ acquisition of JVs/WOSs overseas.

2007). The statutory regulatory framework of exchange control was then provided by the FERA in 1947, and its amendments thereof. In 1978, an Inter-Ministerial Committee in the Ministry of Commerce was established to clear proposals for overseas investments. The rules, in this phase, required mandatory repatriation of dividend from the declared profits from the overseas projects, and were subject to conditions with no cash remittances. In this phase, overseas investment were shaped by political strategies and polices of the GOI (ibid).

Post-liberalization phase

The three pillars of economic reforms of 1991 – liberalization, privatization, and globalization – provided great impetus to overseas investment. These have been the cornerstone for economic policy, foreign exchange regulations, and its concomitant reflections can be seen in the RBI's liberalized rules and simplified procedures for current account and capital account transactions.

The first wave of reforms, in 1992, came with the introduction of the 'Automatic Route' for overseas investment, and allowing for cash remittances; wherein a total investment value of USD 2 million was permitted with a cash component not exceeding USD 0.5 million in a block of 3 years (Khan 2012, p.2; Gopinath 2007). Further, in 1995, under a comprehensive policy framework, a series of policy measures were undertaken to streamline overseas investment in a way that addresses the commercial interests but is also consistent with the macroeconomic situation of the country.

In a significant step towards providing a single window clearance, the mandate for approval of overseas investment was given to the RBI by the Ministry of Commerce. Moreover, a fast-track route was created and investment limits were increased from USD 2 million to USD 4 million, and linked to average exports earning from the preceding 3 years. Approvals for investment proposals for more than USD 4 million were taken up by the Special Committee, and USD 15 million was considered by Ministry of Finance with recommendations of the Special Committee, which used to get approved if raised through the global depository receipt (GDR) route (Khan 2012, p.2).

The ambit of the fast-track route was further widened with the inclusion of exchange earners (other than the exporters) and in the event of a first-generation company being set under fast-track route, the Indian promoters were allowed to set up subsequent generation companies. One of the biggest beneficiaries of these developments has been the globally competitive Indian software industry. Also, as discussed in Section 3, Indian firms rapidly expanded from greenfield investments to more inorganic investments with overseas mergers and acquisitions.

The avenues for overseas investment were enhanced with the change in the legal framework for the administration of exchange control in India as FERA was replaced by FEMA which came into effect from June 2000.

This led to a significant changes in the policy regimen, the foremost being making the investment limit for USD 50 million annually – which was previously available in a block of 3 years – without any profitability condition. Moreover, for the purposes of acquisition and/or investment in JVs or WOSs, the companies were allowed to invest 100 per cent of the proceeds as American Depositary Receipts (ADRs) and GDRs (ibid). In 2002, the annual upper limit for overseas investment under Automatic Approval was increased to USD 100 million.

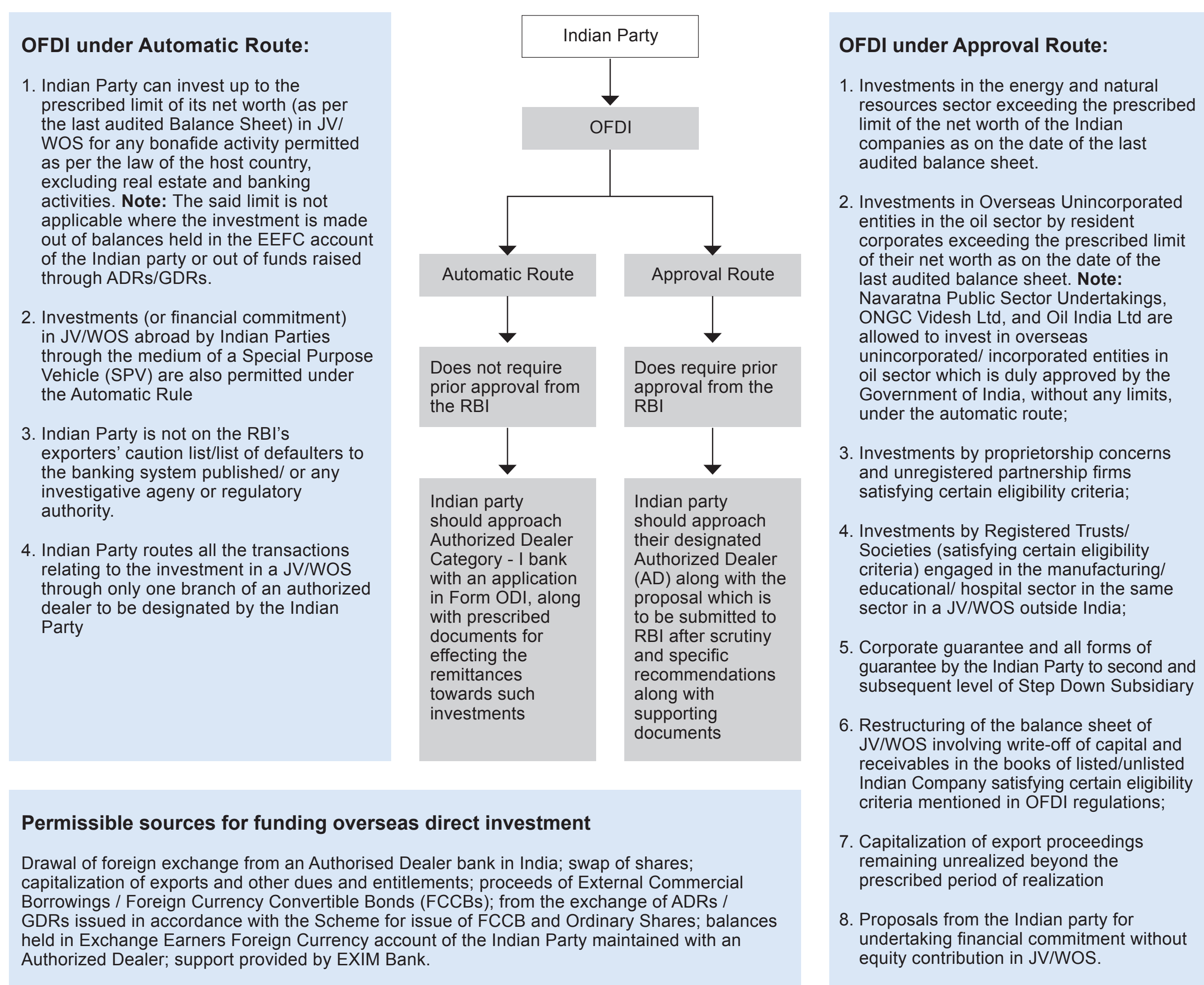
In order to further promote OFDI and reap the benefits of globalization, the upper limit was subsequently discontinued, resulting in greater flexibility for cash flows from the country. In 2003, total financial commitment under Automatic Approval was further liberalized to enable Indian parties to invest to 100 per cent of their net worth. Parallel to this process, subject to certain conditions, banks were permitted to extend credit/non- credit facilities to India JVs/WOSs abroad and prudential limits on such funding have been revised from time to time since then. In 2007, total financial commitment was liberalized and extended to 400 per cent of the net worth (as per the latest audited balance sheet) of the Indian party. Even the limit for Resident Individuals under the Liberalized Remittance Scheme (LRS) increased from USD 100,000 per financial year to USD 200,000 per financial year (EXIM Bank 2014). The ceiling for overseas investment by mutual funds

registered with Securities Exchange Board of India was raised to USD 7 billion in 2008 (ibid).

Since July 2014, financial commitments exceeding USD 1 billion (or its equivalent) require prior approval of RBI, even in case the total financial commitment of the Indian party is within 400 percent of the net worth. Furthermore, the RBI has automated the process of allocation of Unique Identification Number to the application which enables streamlined and efficient processing of applications that come through the Approval Route. The experience, thus far, reveals that the GOI has taken a calibrated approach towards liberalizing OFDI policies, leveraging the opportunities at global markets without jeopardizing domestic investments.

With the changing business environment, the GOI aims to promote OFDI proactively. The Department of Industrial Policy and Promotion (DIPP) has identified zones in South East Asia, Eastern Europe, and Africa, wherein Indian companies are encouraged to invest (Khan 2012, p.14). Additionally, several bilateral agreements and treaties including comprehensive economic cooperation and partnership agreements (ASEAN, Malaysia, Singapore, Japan, Korea), double tax avoidance agreements etc. to provide further impetus to OFDI flows.

Figure 4: The framework for OFDI in India



Source: Authors' compilation from frequently asked questions on Overseas Investment (updated as on September 2011), RBI.

5. CASE STUDY: INDIAN OFDI IN AFRICA

Recent trends of Indian OFDI in Africa

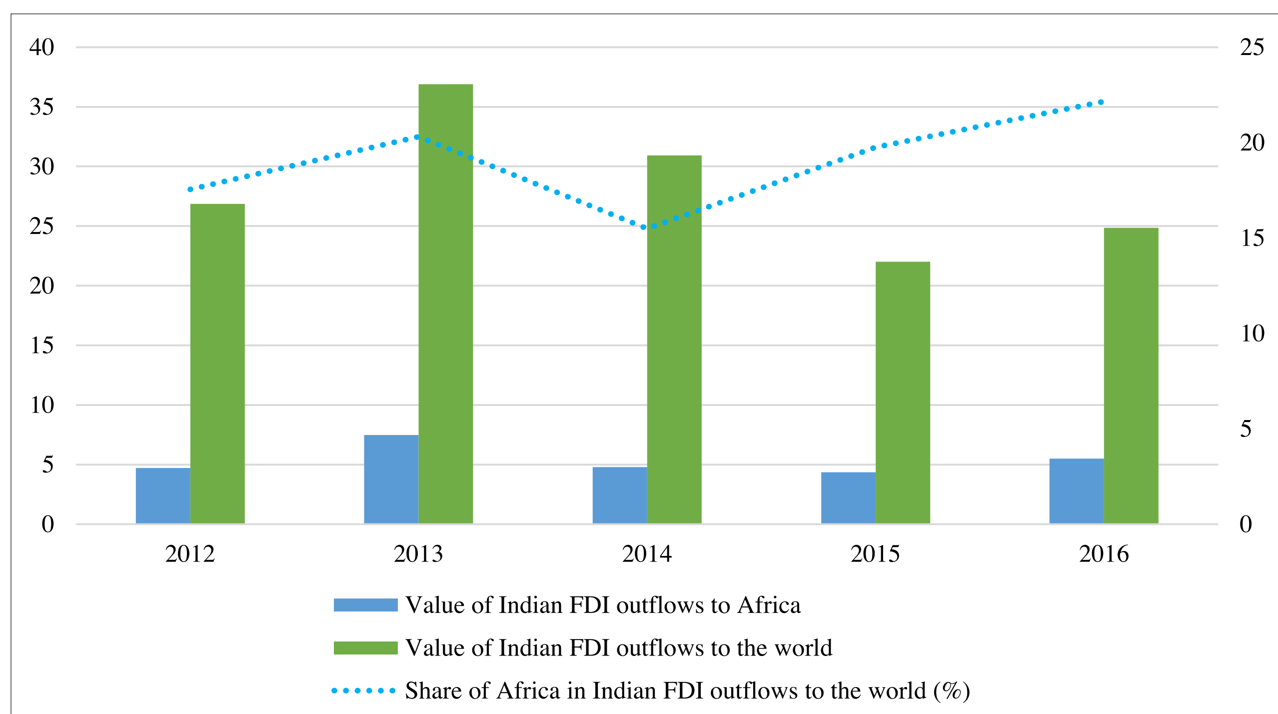
Indian investments in Africa have tremendously improved after the domestic economic reforms in 1991. Liberalized government policies, strong domestic economic growth, increased competencies of Indian firms and a strong presence of the Indian diaspora network in Africa facilitated cross-border acquisitions and greenfield investments by Indian companies in several African countries.

Indian investments in Africa are believed to be driven by the market and resource-seeking motives (Paul 2014). Indian OFDI in Africa is concentrated in the hands of few large firms – out of the 597 Indian companies that have invested in Africa over the period between 2008 and 2016, 80 per cent of total investment flows are captured by the top 11 Indian companies (Chakrabarty 2018).

As of 2016, Africa accounts for 22 percent of India's OFDI which is USD 5.5 billion in terms of value (see Figure 5). As per 2016 RBI data, Mauritius accounts for 98 per cent of the total investments in Africa and 22 per cent of Indian OFDI flows to the world. Cumulative FDI outflows from India to Mauritius amounts to USD 23 billion for the time period 2012-2016.

However, it is important to note that a large amount of investments made in Mauritius are routed back to India. The Double Taxation Avoidance Agreement (DTAA) signed between India and Mauritius in 1983 provides relief on dual taxation. However, DTAA has been used by investors to route their investments through so-called 'tax-haven' countries, facilitating round-tripping of investments, making it possible for investors to sidestep taxes altogether. In order to avoid this tax-revenue loss, the GOI renegotiated the DTAA in May 2016 which will come into force by 2019.[10]

Figure 5: Indian FDI outflows to Africa and the world, 2012 to 2016 (in USD billion)



Source: Authors' estimates from RBI database.

[10] https://www.ft.com/content/64b083bc-75b1-11e6-bf48-b372cdb1043a (27 Feb, 2018 at 00:10 hours).

Table 13: Major African destinations for Indian Overseas Foreign Direct Investment in USD million, 2012-16

	2012	2013	2014	2015	2016	2012 - 2016	Cumulative share for the time period 2012-16 (%)	Cumulative share (excluding Mauritius) for the time period 2012-16 (%)
Mauritius	4438.91	4581.95	4580.79	4043.16	5392.72	23037.53	85.77	-
Mozambique	0.59	2643.06	7.69	1.69	8.02	2661.05	9.91	69.60
South Africa	137.97	19.15	29.50	65.57	32.55	284.74	1.06	7.45
Tunisia	4.65	103.50	0.00	82.20	0.07	190.42	0.71	4.98
Zambia	4.49	11.95	41.67	79.76	10.84	148.71	0.55	3.89
Egypt	76.60	29.18	17.59	8.32	0.96	132.65	0.49	3.47
Ethiopia	3.10	6.03	42.19	17.79	20.91	90.02	0.34	2.35
Morocco	4.85	5.83	14.87	21.65	11.49	58.69	0.22	1.54
Ghana	8.91	24.45	2.24	2.01	2.05	39.66	0.15	1.04
Libya	0.76	27.22	7.40	0.00	0.27	35.65	0.13	0.93
Gabon	0.00	18.65	12.05	0.00	2.75	33.45	0.12	0.87
Nigeria	7.73	6.63	12.68	0.61	2.84	30.49	0.11	0.80
Kenya	8.66	1.63	6.13	4.12	7.78	28.32	0.11	0.74
Tanzania	7.41	3.83	1.60	11.41	0.24	24.49	0.09	0.64
Algeria	0.00	0.00	3.13	5.50	3.50	12.13	0.05	0.32
Botswana	3.95	0.93	5.00	0.00	0.10	9.98	0.04	0.26
Rwanda	0.96	2.31	1.52	1.10	1.56	7.45	0.03	0.19
Uganda	0.48	0.67	1.46	1.37	3.26	7.24	0.03	0.19
Mali	1.24	4.08	1.35	0.12	0.16	6.95	0.03	0.18
Guinea Republic	0.19	0.20	0.30	0.55	3.04	4.28	0.02	0.11
Sub total	4711.45	7491.25	4789.16	4346.93	5505.11	26843.89		
All African countries	4717.33	7494.56	4790.18	4349.66	5509.00	26860.73		
All African countries (excluding Mauritius)	**278.42**	**2912.62**	**209.39**	**306.50**	**116.28**	**3823.20**		

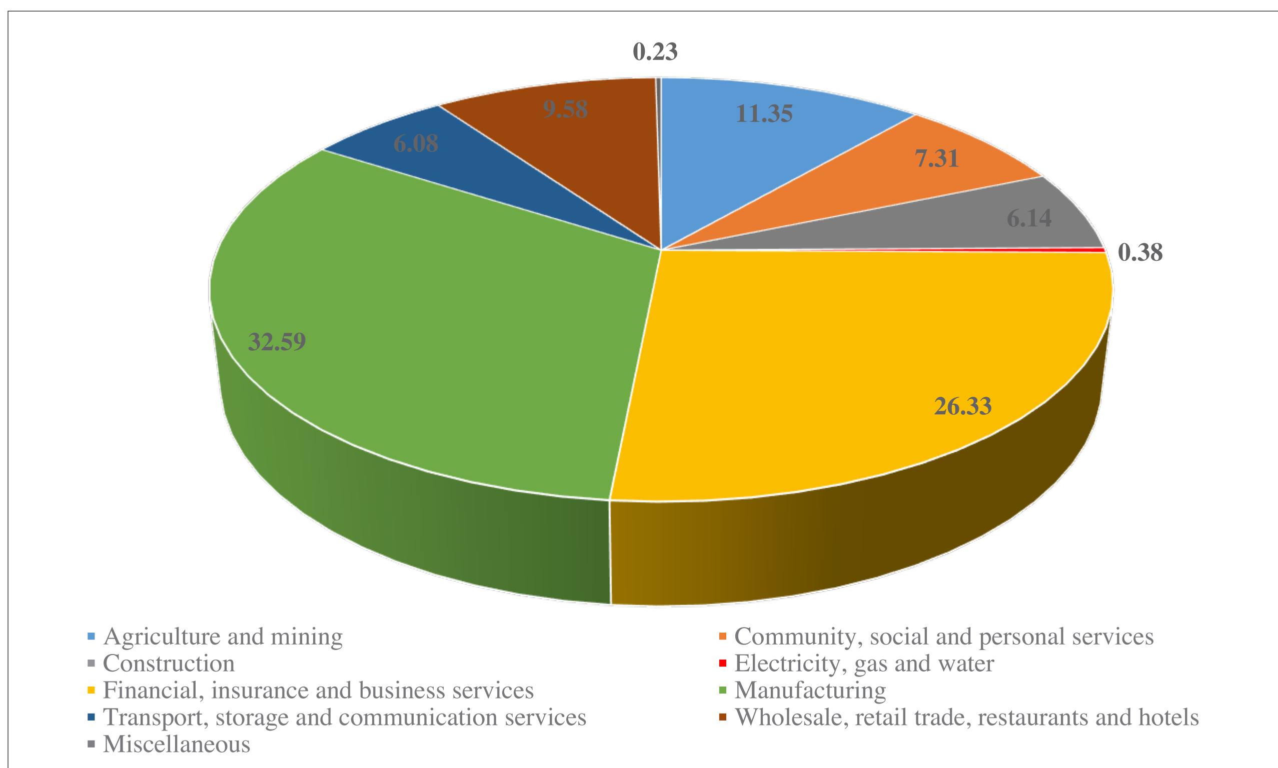
Source: Authors' estimates from RBI database.

Mauritius alone accounts for 85.7 per cent of the total Indian FDI to African countries over this time period (table 13). Apart from Mauritius, the five African countries that have received the maximum FDI from India over the period 2012-16 are Mozambique, South Africa, Tunisia, Zambia and Egypt (table 13). Thus, given the reasons in the preceding paragraph, including Mauritius in the analysis will inflate the actual amount of OFDI to Africa.

If we exclude Mauritius, Mozambique's share in total Indian FDI to African countries over the period 2012-16 is about 70 percent which is majorly due to investments (worth USD 2.64 billion) made by ONGC Videsh Limited, an Indian public sector company, in the year 2013. India's engagements with Mozambique has been further strengthened by the development of the Rovuma gas project. Indian public sector companies – Oil and Natural Gas Corporation of India, Bharat PetroResources and Oil India – have already invested USD 6.5 billion in it and have a 30 per cent stake in Area 1 of the Rovuma basin.[11] In the future, Liquefied Natural Gas (LNG) procured from this region will help India in meeting its domestic energy requirements.

The third major recipient of Indian OFDI is South Africa, accounting for 7.45 per cent of the total Indian FDI to African countries (excluding Mauritius) which stands at about USD 284.7 million in terms of absolute numbers for the time period 2012-16 (table 13). To a great extent, FDI outflows are influenced by policies in the host countries and South Africa has tried to create a more facilitating and robust business environment for foreign investors by providing 'political risk insurance cover' for foreign investments (Paul 2014). Major sectors in South Africa where Indian enterprises have invested include hotels, steel, IT and fast-moving consumer goods (Chakrabarty 2018). South Africa's strategic location on the coast, abundance of natural resources and presence of the Indian diaspora provides a conducive environment for trade and business relations.

Figure 6: Sectoral composition of Indian FDI in Africa, 2012-16 (in percentages)

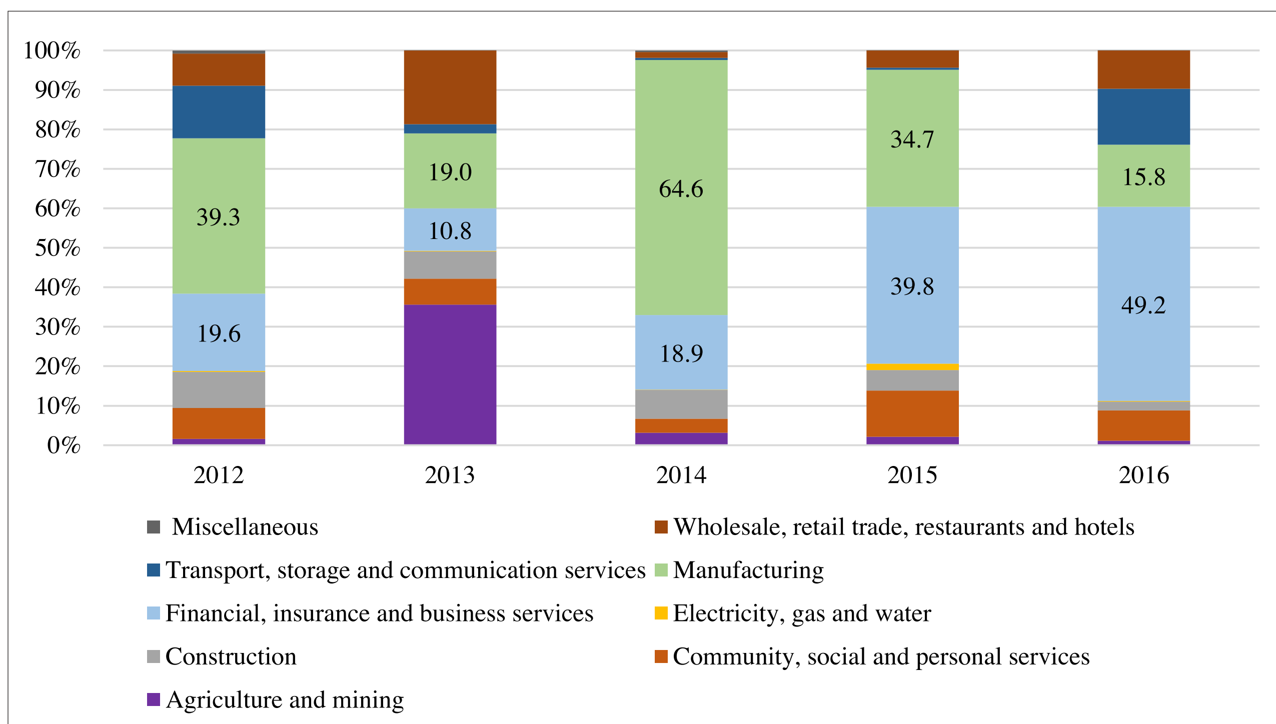


Source: Authors' estimates from RBI database.

[11] Rovuma Basin is a reservoir of natural gas located in the northern coast of Mozambique and Rovuma gas project is Mozambique's first onshore LNG development.

For more details, kindly refer http://www.futuredirections.org.au/publication/india-makes-multi-billion-dollar-gas-investment-mozambique/ (27 Feb, 2018 at 19:57 hours).

Figure 7: Sectoral composition of Indian OFDI in Africa (in percentages)



Source: Authors' estimates from RBI database.

Sectoral composition of Indian OFDI to Africa

For the period 2012-16, sectoral distribution of OFDI shows that manufacturing (33 per cent) and financial, insurance and business services (26 per cent) are the sectors that have received the highest share of FDI from India (Figure 6). Electricity, gas and water have received the least – the aggregate investments received in this sector for the past five years is merely 0.38 per cent of the total FDI investments in all the sectors (Figure 6).

A preliminary comparison of the sectoral distribution shows that the share of manufacturing has tremendously increased from roughly 40 per cent in 2012 to 65 per cent in 2014 and then declined to 16 per cent in 2016 (Figure 7). On the other hand, the share of financial, insurance and business services have increased tremendously from 19 per cent in 2014 to roughly 50 per cent in 2016 (Figure 7). Transport, storage and communication services have also picked up again in 2016 – although its cumulative share for the period 2012-16 is merely 6 per cent of the total investments made in all the sectors (Figures 6 and 7). Table 14 provides a sectoral distribution of Indian OFDI to Africa in absolute value terms.

Literature suggests that Indian FDI in Africa is majorly concentrated in the energy sector including oil, gas, etc. Indian public sector firms like ONGC Videsh Limited, Oil India Limited and private sector firms like Reliance and Essar Africa Holdings are making huge investments in the oil and mineral rich countries of Africa (Gakhar and Gokarn 2015, Chakrabarty 2018). Besides mining and natural resources, Indian FDI to Africa has experienced significant growth in manufacturing, particularly in automobile and pharmaceutical sectors (Paul 2014).

Indian pharmaceutical industries have a large presence in Africa with firms like Cipla, Ranbaxy, etc. having signed JVs with local manufacturers, enabling the two regions to fulfil the dual objectives of developing local capacities by establishing manufacturing bases in Africa and tapping the investment advantage that the African markets offer. Within services, telecom is a sector where Indian firms have fared well in Africa – in 2016, Bharti Airtel acquired Zain Telecom's Africa operations in 15 African nations for USD 10.7 billion, which is one of the biggest cross-border deals in emerging markets.

Table 14: Sectoral distribution of Indian OFDI in Africa in USD million

Sectors	2012	2013	2015	2015	2016
Agriculture and mining	74.46	2667.10	150.84	93.14	62.22
Community, social and personal services	369.76	492.10	171.11	508.29	423.30
Construction	432.62	517.59	348.02	225.52	124.29
Electricity, gas and water	9.35	12.14	4.33	71.36	6.15
Financial, insurance and business services	925.08	806.24	903.39	1729.05	2709.15
Manufacturing	1855.14	1425.27	3095.87	1509.92	868.30
Transport, storage and communication services	628.90	173.34	27.01	21.61	781.86
Wholesale, retail trade, restaurants and hotels	382.84	1397.04	71.40	190.06	532.87
Miscellaneous	39.19	3.74	18.21	0.73	0.86
Total	**4717.33**	**7494.56**	**4790.18**	**4349.66**	**5509.00**

Source: Authors' estimates from RBI database.

6. CONCLUSION

Foreign direct investments – both inward and outward – have played a major role in connecting India with the global value chain. After the 1990s, India has assumed an important role in the global economy and the changes in the domestic economy, political and legislative reforms, and enhanced international cooperation have led to significant changes in the scope, nature, and geographical dimensions of OFDI.

The three pillars of economic reforms of 1991 have been the cornerstone of economic policy and foreign exchange regulations, and its concomitant reflections can be seen in the RBI's liberalized rules and simplified procedures for OFDI. The foremost change emanated from the dramatic shift in comparative advantage of EMNEs from less-technical and more labour-intensive activities to knowledge-based sectors requiring the highest levels of technical sophistication. Consequently, the firms have been seeking greater partnership roles in foreign affiliates. The avenues for overseas investment were further enhanced with significant changes in legal framework for administration of exchange control in India, particularly as the FERA was replaced by the FEMA in 2000.

The general trends suggest that Indian enterprises have increasingly tried to expand their presence in markets of developed economies through mergers and acquisitions while greenfield investments have become a more preferred mode of entry in developing countries. The case study of Africa discussed in the report hinges upon the investment experience of Indian companies in various sectors. The bulk of these investments have largely been concentrated in energy sector but recent trends suggest that Africa holds tremendous potential in IT, pharmaceuticals, and telecom as well. The developmental impact of such investments to Africa, in particular, and other destinations in general, is difficult to assess owing to the cross-cutting nature of various socio-economic, political, and regulatory parameters.

The GOI has taken a careful and calibrated approach towards liberalizing policies related to OFDI, leveraging opportunities at the global markets without jeopardizing domestic investments and growth. This can also be inferred from the recent budget speech (2018-19) of the Finance Minister which highlighted that increased magnitude of OFDI, over the last few years, warrants a thorough review of existing guidelines and processes to evolve a coherent and integrated OFDI policy.

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[12] http://www.thehindu.com/business/companies/Bharti-Airtel-completes-Zain acquisition/article16241933.ece (28 February 2018, 14:19 hours)

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ENDNOTES

According to the RBI, financial commitment refers to the amount of direct investments made by an Indian enterprise outside its borders. It constitutes:

a. Contribution to equity shares of foreign affiliate.

b. Contribution to foreign affiliate as preference shares or loans.

c. 100 percent of the amount of corporate guarantee issued on behalf of its foreign affiliate.

d. 50 percent of the amount of performance guarantee issued on behalf of its foreign affiliate.

e. Bank guarantee / standby letter of credit issued by a resident bank on behalf of a foreign affiliate, backed by a counter guarantee / collateral by the parent company.

f. Amount of fund / non-fund based credit facility availed by creation of charge (pledge / mortgage / hypothecation) on the movable / immovable property or other financial assets of the parent company / its group companies.