Indian Multinationals

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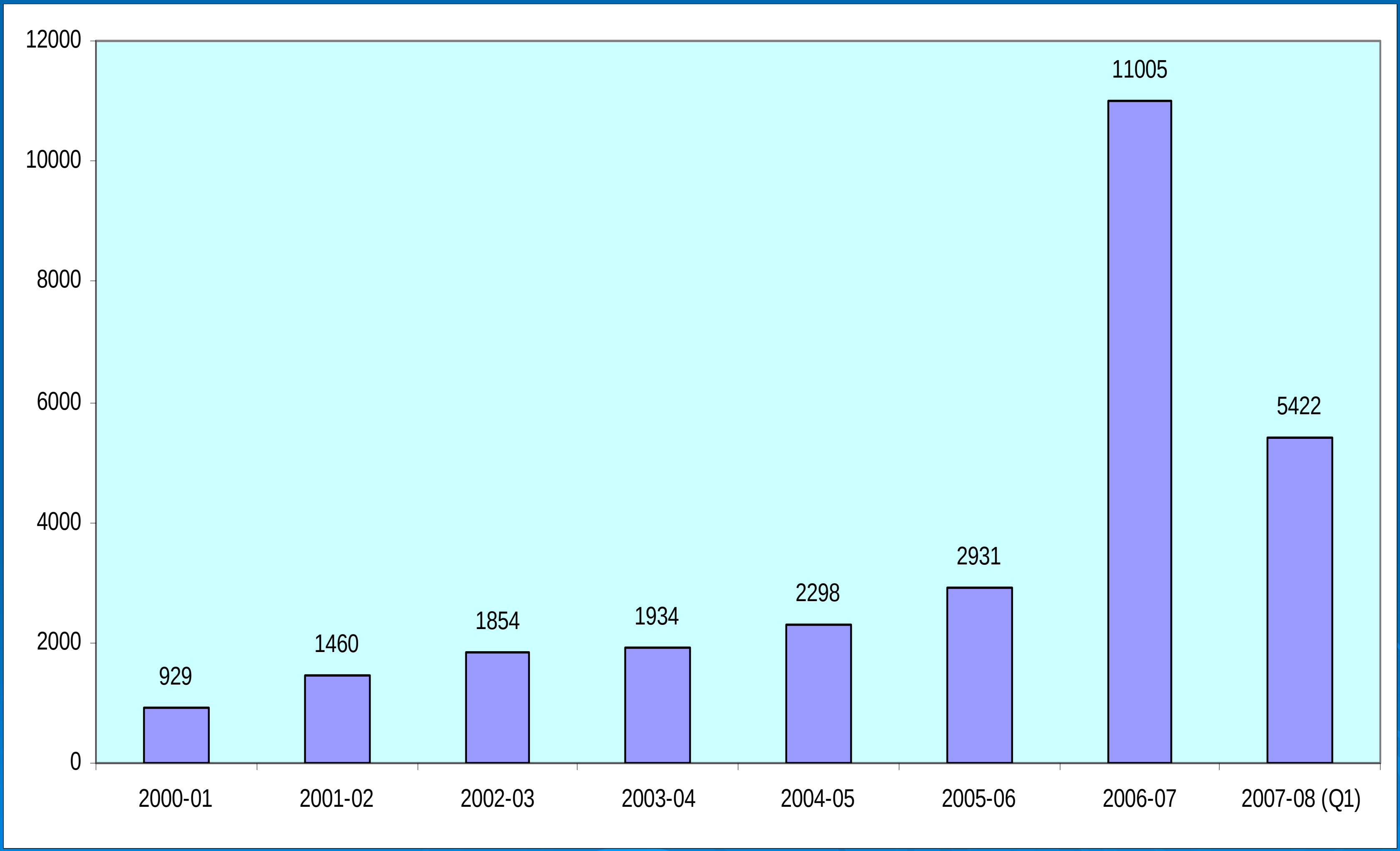
01.11.07

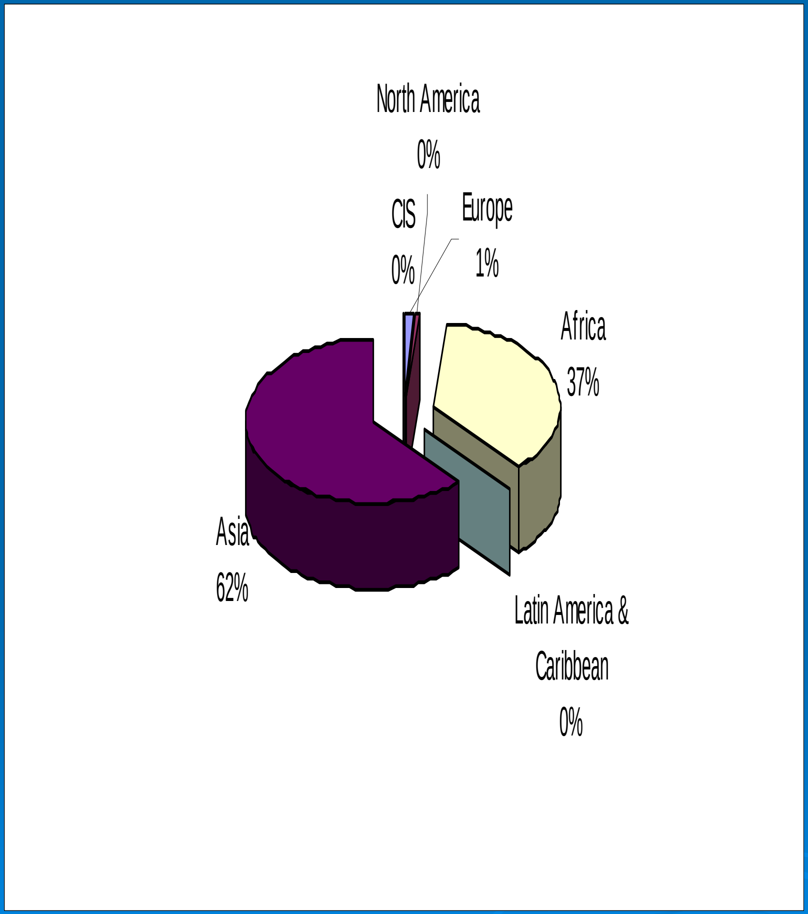
Outward FDI (USD million)

Source : BOP Statistics, RBI

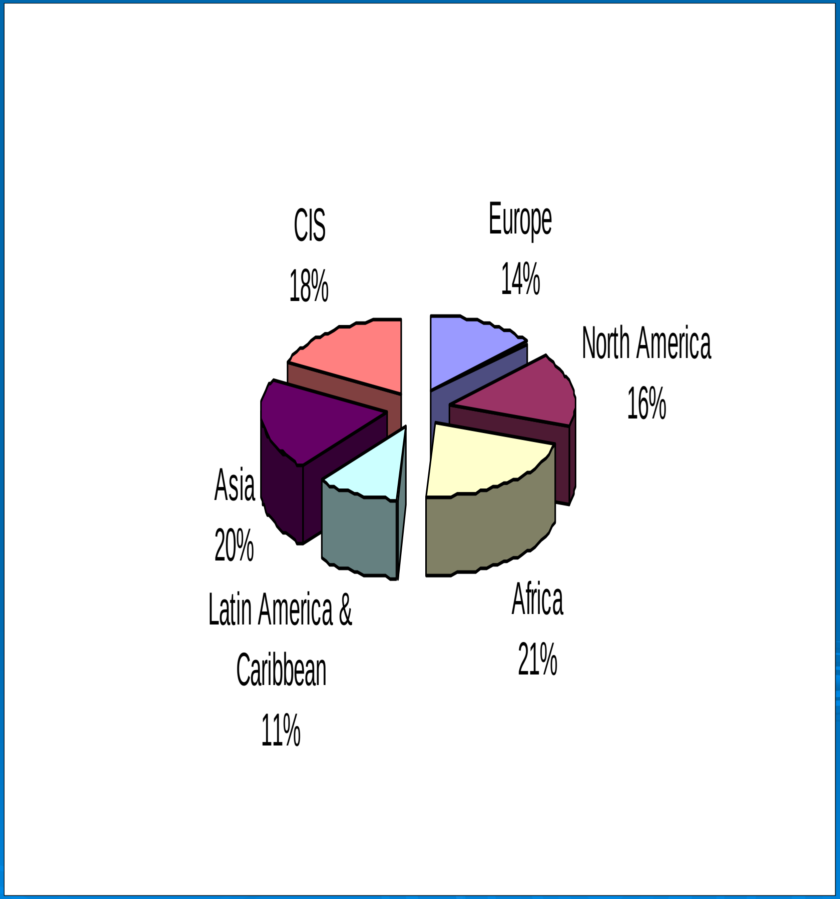


Outward FDI : Geographical Distribution

1986



2006

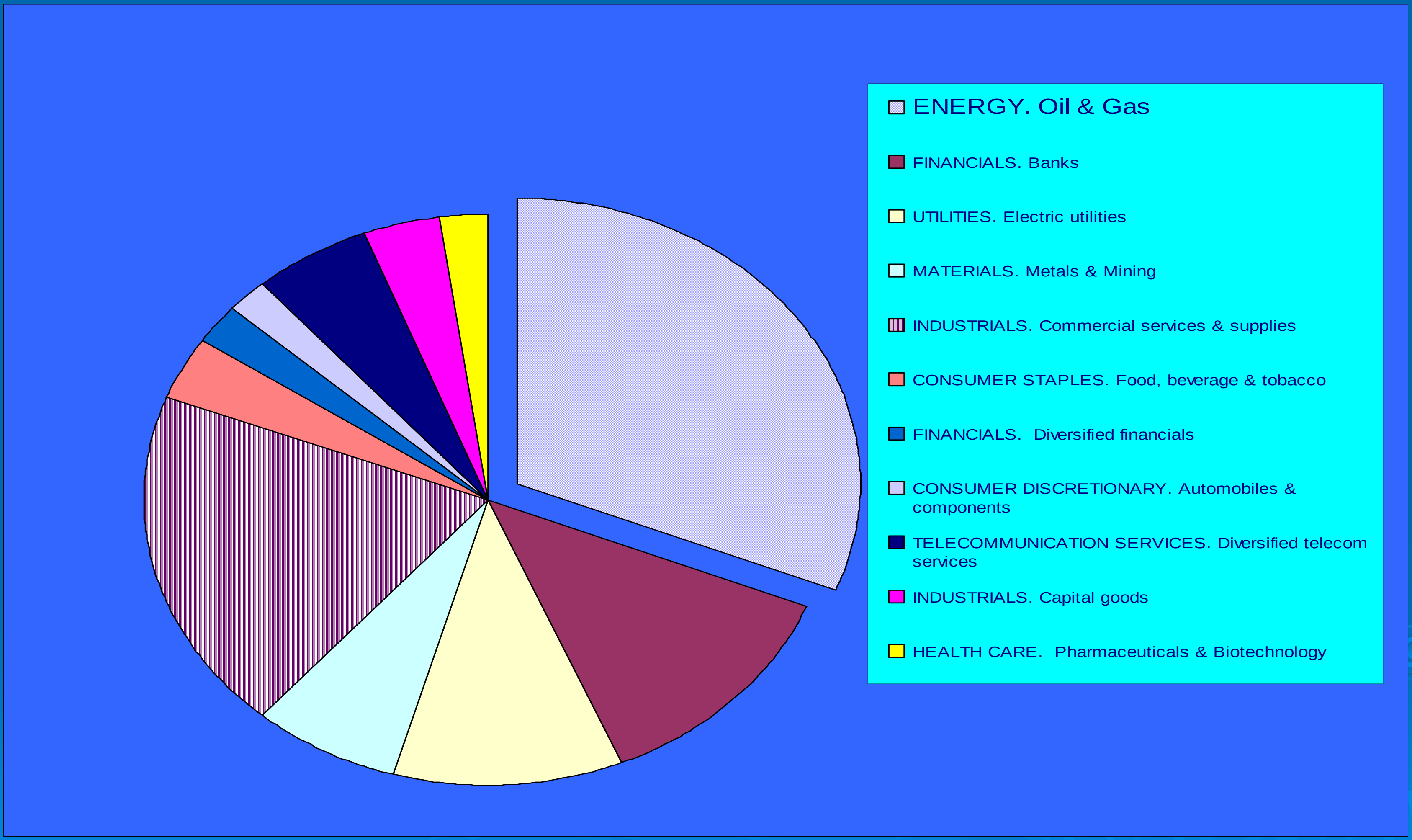


Outward FDI : Sectoral Distribution

Sector	Share (%)
1. Manufacturing	53.4
2. Services	39.1
a) Financial	1.4
b) Non-financial	32.8
c) Trading	4.9
3. Others	7.5

Industrial Distribution

(Source : Saez, L.. ARC, LSE)



Key Points

- 21 Indian companies figure in the list of 100 companies identified by the Boston Consulting Group as 21st Century MNCs.
- Sharp pick-up in acquisitions in recent years.
- US, Europe and CIS markets have emerged as key regions for investment.
- Energy is the dominant industry for investment led by state-controlled firms.

Outward FDI Policies

- 1992-93 – New guidelines announced for Indian JVs and WOSs abroad. Automatic route announced for outward FDI.
- 1999-00 – Sectoral scope for investment widened further along with procedural simplifications.
- 2007-08 - Overseas investment limit for Indian JVs and WOSs under the automatic route increased up to 300 per cent of their net worth from 200 per cent earlier.

Drivers : a) Technological Capabilities

- Ability to produce relatively complex products at globally competitive prices

  (E.g.. Tata’s, Ranbaxy, Reliance, Mahindra, Wipro etc.)
- Coupled with financial strength, technology-driven ownership advantages have encouraged Indian firms to locate overseas.

Drivers : b) Greater Market Access

- Proximity to customers in select markets by reducing delivery time (E.g. Amtek Auto in Europe, Infosys in Australia and Denmark)
- Extracting brand value for greater market penetration (E.g. Tata’s acquisition of Daewoo in Korea and Tetley Tea of UK).

Drivers : c) Entering Global Supply Chains

- Strategic collaborations with overseas firms have helped Indian firms in entering global production networks. (e.g. Ashok Leyland – Hino Motors (Japan), Larsen & Toubro – Voith Paper (Germany), Reiko Auto – Teksid Aluminium (Italy)).
- These collaborations are facilitating market access and improving production efficiency.

Drivers : d) Enhancing Capabilities

- Many acquisitions have been driven by the motive to acquire greater 'knowledge' and 'learning' – essentially technological assets. (e.g. Wipro's acquisition of Nerve Wire Inc and I-Flex Solution's buy-out of Sueprsolution Corp).

Drivers : e) Scale economies

- Spreading capacities over locations for reducing cost of production and obtaining scale benefits has driven both greenfield ventures as well as acquisitions. (e.g. Moser Baer, Bharat Forge, Reliance Industries)

Drivers : f) Strategic Factors

- Has been the principal driver behind overseas investment in energy resources.

(e.g. ONGC Videsh Limited’s ventures in Columbia, Cuba, Egypt, Iran, Myanmar, Qatar, Russia, Sudan, Syria. IOC, BP and HP are also moving overseas).

Emerging Questions

- Will medium and small firms join the party?
- Outward FDI may soon exceed inward FDI. Any BOP implications?
- Will a weaker dollar encourage further acquisitions?
- Shift in economic balance within Asia?