

## Chapter 9

# Changing Contours of Indian Investment Abroad: Evolution, Diagnosis and Public Policy

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### ABSTRACT

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

### INTRODUCTION

During recent years, the Indian economy has shown high dynamism in its process of structural transformation and economic growth. Such achievement has been the result of long concerted efforts made by the Indian government to develop strategic capabilities in (economic) production agents. It is noteworthy

that the innovations system put in place by the Indian development strategy, which itself has undergone unprecedented changes from import substitution to nearly open system, has developed and nurtured some strategic and unique cost reduction capabilities in economic agents of production.

The Indian policy regime, guided by national development priorities, allowed Indian enterprises to invest abroad for attaining not only the economies

DOI: 10.4018/978-1-61520-709-1.ch009

of scale but also to remain competitive vis-à-vis their counterparts in other nations. Earlier phase of Indian economic development, under restrictive policy regime (to invest abroad), aimed at boosting domestic investment, which enabled Indian enterprises to learn adaptive capabilities whereas the second phase of Indian economic development encouraged Indian companies to invest abroad for reducing the deficiency of strategic asset requirements for sustaining domestic development process. Consequently, during the recent phase of fast economic growth, the Indian enterprises have been expanding both in the domestic and international market while competing with the global brands and multinational enterprises. The Indian enterprises have a long experience of investing abroad in technologically low end or equal level countries, which happened to be India's strategic trading partners.

The recent spurt in India's outbound investment in the developed countries needs to be examined seriously. In this line, the present chapter examines, in an evolutionary perspective, India's outward foreign direct investment and in its endeavor, the chapter besides tracing the emerging pattern of India's outward foreign direct investment hints at the facilitating role of state policy to encourage the outflow of Indian foreign direct investment.

The chapter is spread across five sections. Besides this (first) introductory section, second section provides a review of theory and practice of emerging multinational corporations belonging to developing countries. The changing structure of Indian outward foreign investment, both country-wise and industry-wise, is discussed in section three. The facilitating role of Indian state policy, since 1974, to encourage outward foreign direct investment is examined in the fourth section whereas the emerging conclusions are discussed briefly in the last (fifth) section.

## **MNC'S EMERGENCE FROM DEVELOPING ECONOMIES: THEORY AND EMPIRICS**

Recently, international expansion of business has attracted attention of a large number of researchers. The theory of international operation of firm has sought to understand the major determinants influencing 'Outward Foreign Direct Investment' (OFDI, hereafter). The established theories of international investment based on the experience of the firms from the industrially advanced countries suggest that the competitive advantage allows firms to expand business and secure higher returns. The theoretical perspectives on the international operation of firm have evolved from Hymer (1976), Dunning (2000) and several others. The unique competitive advantage possessed by firms is based on innovation activity largely concentrated in the home country. This unique competitive advantage, in the form of ownership, location and internationalization, allows firms to acquire monopolistic or oligopolistic power in the market and expand their businesses internationally through investments, mergers and acquisitions.

It is widely recognized fact that the national innovation system of the emerging developing economies and emerging multinational enterprises of the developing countries do not possess such unique competitive advantage primarily due to the infancy of their national innovation systems. Consequently, the emerging multinational enterprises of these developing economies internationalize businesses mainly to acquire competitive advantage, which they do not possess (Nayyar, 2008). Under such circumstances, the theoretical developments explaining motives behind internationalization of business by firms, based on the experience of industrially advanced country firms, remain inadequate to explain recent spurt in internationalization of firms from developing economies (including India).

Mathews (2006), based on outward foreign direct investment from newly industrializing East

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