Outward FDI from India: Review of Policy and Emerging Trends

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Working Paper 214

November 2019

ISID Institute for Studies in Industrial Development
New Delhi

ISID
Working Paper
214

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A Paper Prepared as part of the Research Programme
Industrial, Trade and Investment Policies:
Pathways to Industrialization

Theme: II
Trade, Technology and FDI
Sub-theme: FDI and Technology Transfer

Sponsored by
Indian Council of Social Science Research (ICSSR), New Delhi

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November 2019

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Review of Policy and Emerging Trends

Reji K. Joseph[*]

*[**Abstract**: The policy regime governing India's outward FDI (OFDI) has undergone major changes in the last one and a half decades period. This paper aims to map the changing policies on OFDI since 1960s. It also aims to capture major trends in India's OFDI in the last one decade. It is found that liberalisation of OFDI by doing away with blanket ceiling and linking outward investment to net worth of the investors have majorly boosted OFDI from India. Rising OFDI from India is characterised by growing significance of services in OFDI – it has overtaken manufacturing sector as major OFDI originating sector. Developing countries are the leading destination for services OFDI. In services of various levels of knowledge intensity – knowledge intensive services and less knowledge intensive services – developing countries outpace developed countries as destination countries. But in the manufacturing sector OFDI, a clear distinction can be drawn on destination, depending on whether the investors belong to high-tech or medium-tech manufacturing sectors. Much of the OFDI originating from high-tech manufacturing sectors is destined to advanced countries whereas OFDI from medium tech industries is focused largely on developing countries.]*

JEL Classifications: *F21, F23, L60*

Keywords: Outward FDI, Technology, Manufacturing Services.

1. Introduction

Outward Foreign Direct Investment (OFDI) from India has increased considerably after 2004 when restrictions on OFDI were liberalised substantially. This paper reviews India's OFDI policy since independence and analyses OFDI from 2008-2018 to capture the emerging trends. It also identifies some key characteristics of OFDI in terms of the sectors of origin and level of technology advancement of the investors.

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2. Source of Data

There are three sources which provide data on OFDI from India – Reserve Bank of India (RBI); Department of Economic Affairs (DEA), Ministry of Finance; and UNCTAD.

The RBI provides two sets of monthly data on Indian OFDI – data on 'Overseas Direct Investment' (ODI)[1] and 'Foreign Direct Investment by India' (FDII)[2]. The RBI-ODI data provides information on OFDI in the form of investments in equity, loans, and guarantee issued. This data is available investor-wise. It also gives some details about the investee firms and country of investee firms. This is the widely used database for detailed analysis of OFDI from India.

The RBI-ODI data provides information on major activity of joint ventures (JVs) and wholly owned subsidiaries (WOS). But, this information is of very limited use for more detailed analysis for three reasons. *One*, the description of the activity is too broad. For example, it gives the information that the activity falls under the manufacturing sector but does not provide the information on the specific industry within the manufacturing sector. *Two*, there are inconsistencies in the description of major activity of JV/WOS. The major activity of Fortis Healthcare's JV in Mauritius - Fortis Healthcare International, is given as manufacturing. But the business of this JV is in hospital services. *Three*, in a large number of cases, Indian investors have established holding/investment companies for the purposes of investing abroad. Sometimes they tend to be classified as financial services companies whereas that need not be the case. Godrej Consumer Products's WOS in Mauritius – Godrej Consumer Products Holding Mauritius Ltd., is classified as a manufacturing firm whereas it's another WOS in Mauritius - Godrej Mauritius Africa Holdings Ltd. is classified as a financial service firm. However, we do not have much information about the downstream investments of these JV/WOS.

Other limitations of the RBI-ODI data are: *One*, it is provisional data; it will be updated as and when the authorised dealers report the transactions. *Two*, it does not provide investor-wise guarantee invoked data, although it provides investor wise guarantee issued data. Guarantee can be considered as actual outflow only when they are invoked (Rao and Dhar 2011). *Three*, Indian firms have been allowed since 2005 to use special purpose vehicles in the international capital markets to fund acquisition of firms abroad. Investments using borrowed funds abroad are not captured in the OFDI statistics of India (Nayyar 2008). *Four*, it does not capture the reinvested earnings of Indian JV/WOS. *Five*, it does not provide information on repatriation/divestment by Indian investors.

The RBI-FDII data, on the other hand, provides information on reinvested earnings and debt transactions between Indian investors and investees abroad, apart from investment in equity. It also provides the information on repatriation/divestment, which enables one to compute the net flow of investment. However, a major limitation of this data is that it is

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[1] https://rbi.org.in/Scripts/Data_Overseas_Investment.aspx

[2] https://www.rbi.org.in/scripts/BS_ViewBulletin.aspx

aggregate and does not provide any information on Indian investors, their investees abroad and destination countries.

The DEA also releases the data on OFDI – 'Overseas Direct Investment'[3]. It provides monthly and annual estimates of OFDI outflows. It gives the data on ODI in equity, loans, guarantee issued and guarantee invoked. It also gives OFDI destination and sectors (broad) attracting OFDI. However, it does not provide the data investor-wise. Like the RBI-ODI data, DEA-ODI data is also provisional and does not contain reinvested earnings.

UNCTAD provides country-wise OFDI data. The parameters used for compiling the data are investment in equity, intercompany loans and reinvested earnings. UNCTAD provides this data on net basis, i.e., credit minus debit of capital transactions between the investor and investee firms. Like RBI-FDII data, this is also aggregate data and it does not provide any information of investors and investees.

For the analysis in this paper, data from all the three sources is used appropriately

3. Overview of India's OFDI Policy

India's approach to OFDI has evolved, since Independence, from a restricted one to a more liberal one. The perception of the benefits from OFDI to the host countries and the home country (India) has also changed over the years. The year 1992 marks the shift towards a liberal approach to OFDI. Evolution of India's policy on OFDI can be divided into two phases: before and after 1992.

3.1. Phase-I (Upto 1992)

Indian companies have been investing abroad since 1960s. However, Indian OFDI was restricted for scarcity of capital and considerations on foreign exchange. Indian investors were required to make the investment in non-cash forms such as export of machinery, technical know-how, etc. Limited amount cash transfers were permitted, selectively, for meeting the initial expenses in setting up the overseas units (Pradhan 2008).

The first policy on OFDI in post-independence period – 'General Guidelines Governing Indian Participation in Joint Overseas Industrial Ventures', was formulated in 1969, which came into force in the next year. Only industrial JVs were permitted and that too with minority Indian participation in the equity. All investments abroad required permission by the government and this system continued till 1992. This guideline was revised subsequently in 1978, 1985, 1992 and 1995. Various OFDI policies in the first phase and their key features are summarised in Table 1.

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[3] https://dea.gov.in/overseas-direct-investment

Table 1: Overview of India's OFDI Policy in Phase-I

OFDI Policy	*Key Features*
1969: General Guidelines Governing Indian Participation in Joint Overseas Industrial Ventures	o Only industrial ventures. o Only minority Indian participation. o No cash remittances for setting up companies o Indian participation in the form of machines, equipment, technical know-how etc. (machinery should be of Indian origin) o Preference for training in India.
1978: Guidelines Governing Indian Joint Ventures Abroad	o Included other sectors than industry: consultancy, trading, mineral exploration, services etc. o Ministry of Commerce was made the focal point. o Encouraged association with local partners to the maximum extent feasible. o Permission was merit based. Foreign exchange needs of the country was to be taken into consideration.
1985: Guidelines Governing Indian Joint Ventures Abroad	o Stated that equity participation by Indian investors should be in compliance with the laws and host countries. o Specified that investments only by companies registered under the Companies Act, 1956 (investment by individuals not permitted). o Wholly owned subsidiaries were permitted. o Participation of Indian investors should be in the form of export of indigenous plant, machinery and equipment. Equity participation through capitalisation of fees, royalties and other entitlements was permitted. o Essential criteria for granting permission included financial soundness and past export performance. o Mandatory requirement of submission of annual performance report to Ministry of Commerce.

Source: Pedersen (2008) and Government of India (1985).

Note: The details of policy for the years 1969 and 1978 are reproduced with suitable modifications from Pedersen (2008); details of the policy of 1985 is compiled from the Guideline reproduced in Ranganathan (1988).

The initial focus of India's OFDI policy was centred on the promotion of South-South Cooperation (SSC) and exports from India. In the initial years of permitting OFDI, Indian investors were allowed to invest only in JVs with minority shareholding. This, on the one hand, limited the outflow of capital, and on the other hand, promoted mutually beneficial SSC (Pedersen 2010). SSC had emerged as a key aspect of India's foreign policy since the establishment of Colombo Plan for Cooperative Economic and Social Development in Asia and the Pacific (Colombo Plan) in 1951. India had played a major role in the UNCTAD in initiating discussions aimed at establishing an investment regime that is accommodative of development considerations of developing countries. According to Ranganathan (1988), the argument in favour of India's OFDI to fellow developing countries was that: India has been importing technology from developed countries and adapting them to make them suitable to the requirements of India and therefore, India could be a potential source of technology, which is suitable for capital scarce and labour abundant developing countries. Besides, India's expertise in planning, designing and installation of industrial projects would be of value to other developing countries. Ranganathan (1988) points out that it was in the mid-1960s that the decision to permit Indian JVs abroad was taken; the focus was African continent.

At the time of the initial decision to permit OFDI, Government of India clearly stated that Indian JVs should be allowed to operate only on terms which India as a host country would accept for foreign investors (Ranganathan 1988). Accordingly, the equity participation of Indian investors was limited up to 49%. Ranganathan (1988) points out that this policy decision was allowed to be ignored in practice, in the course of time. He in fact had found that out of the 190 joint ventures (till August 1986), one-fourth (36 JVs) had equity participation above 49%[4].

Pedersen also (2010) argues that India subsequently moved away from promotion of South-South relations with the objective of developing India's own MNCs. According to him, initial formal admission of this strategy was reflected in the Tandon Committee Report (1980), which stated "we should begin to look ahead with our own new [MNEs]". It was also noted in the report that "they are also beginning to look further afield" (than towards other developing countries) (Pedersen 2010: 74). He also points out that the Prime Minister of India, Dr. Manmohan Singh, in one of his speeches in 2004 had mentioned about India becoming home to its own breed of MNEs.

Ranganathan (1988) further argues that Indian OFDI policy, over the years, had become very similar to that of advanced nations who support their investors in foreign countries. Govt. of India had instituted various schemes such as export subsidies, export credit, finance, bilateral agreements, etc. for the promotion of Indian OFDI. Pedersen (2010) argues that promotion of India's exports was an objective from the very beginning. He points out that the Export Policy Resolution of 1970 explicitly acknowledged the potential of OFDI in promoting exports from India.

An overriding concern behind the restrictions on OFDI till 1992 was the considerations on the preservation of foreign exchange. Scholars have pointed out that in years of comfortable foreign exchange situation, government was more forthcoming in granting permissions for OFDI (B.M. 1977).

There are diverging views on what drove Indian private investments abroad in pre-1992 period. Nayyar (2008) argues that Government's approach to import substitution, industrial licensing, higher education and R&D during the period between late 1950s and 1980s had created entrepreneurial, managerial and technological capabilities, which

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[4] The Guidelines of 1985, which permitted wholly owned subsidiaries, came into force only in 1986. Therefore, it is likely that some of the 36 JVs with equity participation above 49% were established in 1986 (till August).

facilitated internationalisation of Indian firms. Lecraw (1977) had found that Third World investors, mostly Indian investors, in Thailand had achieved better capacity utilisation, higher profits and higher reinvestment rates as compared to the investors from developed countries. The experience of Indian firms in import substitution appears to have provided them with some competitive advantage as compared to firms in other developing countries. But some others (Balakrishnan 1976, Encarnation 1982 and UNCTAD 2005) have the view that the restrictive policies of government, especially anti-trust legislation (MRTP Act 1969), forced large Indian companies to move away from domestic market into international market.

3.2. Phase-II (after 1992)

Table 2: Overview of India's OFDI Policy in Phase-II

OFDI Policy	*Key Features of OFDI Policy*
1992: Guidelines Governing Indian Joint Ventures/Wholly-owned Subsidiaries Abroad	o Introduced automatic approval for investments upto US$ 2 Million. o Cash remittance was permitted upto US$ 0.5 Million. o Provided more operational freedom to investors, subjected to the condition that no additional financial transfers from India was required. o Removed the requirement of only minority equity shareholding in JVs. o Financial sector was excluded from the purview of automatic approvals.
1995: Guidelines for Indian Direct Investment in Joint Ventures and Wholly-owned Subsidiaries Abroad[5]	Aimed at providing a transparent policy framework for Indian investors to plan their business. Key objectives of the Guideline were the following[6]. o Provide a framework for Indian industry and business to access global market in the global scenario of growing linkages between international trade and investment. o Ensure that OFDI flows, although are driven by private interests, are consistent with macroeconomic and balance of payment considerations of India. o Facilitate technology-seeking, resource-seeking and market-seeking Indian OFDI as a strategic response to emerging global opportunities in trade in goods and services. o Ensure that Indian industry and business attain strategic positions in certain areas or geographical blocs.

[5] The Guidelines were issued by Ministry of Commerce in notification no. 4/1/93-EP(0I) dated 17 August, 1995. This notification was amended in the following years.

[6] Information compiled from File No.4/1/93-EP(0I), 17 August 1995, available at https://www.rbi.org.in/scripts/ECMUserView.aspx?Id=41 (11 June 2019).

OFDI Policy	*Key Features of OFDI Policy*
	It created a fast track category (Category A/automatic route) and normal (Category B) investment proposals. Investment ceiling in both the categories was amended in the following years. Important changes in the key provisions of the Guideline are provided below. 1995: o Annual investment ceiling in 'fast track' category was increased to US$ 4 million. o Ban on financial sector was partially removed: OFDI by insurance and mutual funds firms was permitted. Banking was not permitted. o Investment proposals in the range of US$ 4-15 Million was to be approved by a Committee headed by RBI (The committee would also include members from Ministry of Commerce, Finance and External Affairs) o Investments larger than US$ 15 Million would be considered if resources beyond this amount are raised internationally. It required consent of Ministry of Finance. o Permitted acquisitions of foreign companies. 1997[7]: o Limit of automatic approval was increased up to US$15 Million. o Investment proposals beyond US$ 15 Million was to be considered if the resources exceeding US$ 15 Million is raised through Global Depository Receipts (GDRs). o Up to 50% of the GDR funds was permitted to be used for OFDI in JVs. 1998[8]: o Indian OFDI in the form of Indian rupee was permitted in Nepal and Bhutan up to INR. 60 crore in the fast track mode. o For rest of the world, the annual ceiling of US$15 million continued. 1999: o Investments in Nepal and Bhutan, in Indian currency, increased up to INR. 120 crore. o Annual ceiling of OFDI under fast track mode increased to US$ 30 Million in SAARC countries and Myanmar. For other countries, the ceiling remained at $15 million.

[7] Information gathered from notification *4/3/97-EP(OI) dated 22nd August 1997, available at* https://archive.org/stream/in.gazette.e.1997.162/E-0243-1997-0154-8236_djvu.txt (10 June 2019)

[8] For 1998 and 1999, information is gathered from A.D. (M.A. Series) Circular No.24, 23 July 1999, available at https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=68&Mode=0 (10 June 2019).

OFDI Policy	*Key Features of OFDI Policy*
	o Special provision was introduced for investment by computer software companies. Those software companies, which had an export earnings of $25 million or above in preceding three years, could invest upto 50% of such earnings, subject to a limit of $25 million, in a block of three years. o OFDI by financial sector investors was allowed subject to: (a) track record of minimum three years, (b) net-worth of Rs. 15 crore, and (c) met the norms relating to capital adequacy ratio of 8%.
2000: Foreign Exchange Management (Transfer or issue of any foreign security) Regulations, 2000[9]	o The limit of automatic approval increased to US$ 50 Million (in a block of 3 years). o No Indian individual resident in India was allowed make investment in foreign countries. o Overseas direct investment was prohibited in real estate business and banking business.
2002: Foreign Exchange Management (Transfer or Issue of any foreign security) (Amendment) Regulations, 2002	o Annual limit of investment under automatic approval is increased to US$ 100 Million[10]. o Exempted companies operating in Special Economic Zones (SEZ) from ceiling under automatic route, provided the investment is made out of Exchange Earners Foreign Currency (EEFC) account balances[11].
2003: Indian Direct Investment in JVs/WOSs Abroad[12]	o Permitted investment in JV/WOS aboard under automatic route through the medium of special purpose vehicles. o The requirement of a minimum of Rs.15 crore net worth for the financial services firms to invest abroad was dispensed with. o Investment in Nepal and Bhutan, in Indian currency, was raised to INR. 700 crores in a bloc of three years. o Ceiling of investment in SAARC countries and Myanmar (annual ceiling) was raised to $150 million. o Persons resident in India (individual/listed company in India/mutual fund registered in India) were allowed to invest in the shares of foreign companies listed in a registered foreign stock exchange, subject to the condition that the investment should not exceed 25% of the net worth of the investor.
2004 Foreign Exchange Management (Transfer or Issue of Any Foreign	o Done away with annual ceilings under automatic route.

9 Notification No.FEMA 19/RB -2000 dated 3rd May 2000

10 Notification No.FEMA 53 /2002 –RB, 1 March 2002.

11 Notification No, FEMA. 49 /2002-RB, dated 19 January, 2002.

12 Notification No.FEMA.79/2002-RB, dated 15 January 2003; A. P (DIR Series) Circular No. 41, 6 December 2003; and Notification No.FEMA.88/2003-RB, 1 April 2003.

OFDI Policy	*Key Features of OFDI Policy*
Security) (Amendment) Regulations, 2004[13]	o OFDI was linked to the net worth of investing firm. Financial commitment in automatic route was permitted up to 100% net worth. o Prevented investment in real estate and banking business.
2005: Overseas Investment: Liberalisation[14]	o Automatic route for investment abroad was raised to 200% of net worth.
2006: Overseas Investment: Liberalisation [15]	o Done away with the requirement that only promoter corporates could issue guarantee on behalf of JV/WOS. Any Indian entity was permitted to issue guarantees.
2007: Overseas Direct Investment-Liberalisation and Investment by Navaratna Public Sector Undertakings (PSUs) in unincorporated entities in oil sector abroad [16]	o Automatic approval was made up to 300% of net worth in June and this limit was increased to 400% in September. o Permitted Navaratna public sector companies, ONGC Videsh Ltd. and Oil India Ltd. to invest in overseas unincorporated entities in oil sector, without any limits, under the automatic route.
2008: Overseas Investments - Liberalisation / Rationalisation [17]	o Permitted Indian private entities in the oil sector to invest in unincorporated entities in oil sector up to 400% of their net worth under the automatic route.
2013: Overseas Direct Investments [18]	o Brought down the ceiling of automatic approval to 100% of net worth. o However, provisions in the oil sector remained unchanged.
2014: Financial Commitment (FC) by Indian Party under Overseas Direct Investments (ODI) – Restoration of Limit [19]	o Limit for automatic approval restored to 400%.

Source: Compiled from Perdersen (2008), Nayyar (2008) and RBI

The policies during the post-1992 period can be divided into two phases: the quasi-liberal phase (1992-2004) period and liberal phase (after 2004). During quasi-liberal phase, OFDI was permitted automatically up to a ceiling amount. Investments beyond the ceiling amount had to obtain permission from the government. Whereas in the liberal phase, OFDI

13 Foreign Exchange Management (Transfer or Issue of Any Foreign Security) (Amendment) Regulations, 2004, Notification No. FEMA 120/ RB-2004 dated: July 7, 2004

14 A.P.(DIR Series) Circular No. 42, RBI/2005/463, May 12, 2005.

15 RBI/2005-06/ 338, A.P. (DIR Series) Circular No. 29, March 27, 2006.

16 RBI/2006-2007/437, A. P. (DIR Series) Circular No. 75, 14 June 2007 and RBI/2006-2007/403, A. P. (DIR Series) Circular No. 59, 18 May 2007.

17 RBI/2007-2008/352, A. P. (DIR Series) Circular No. 48, 3 June 2008.

18 RBI/2013-14/180 A. P. (DIR Series) Circular No.23, 14 August 2013.

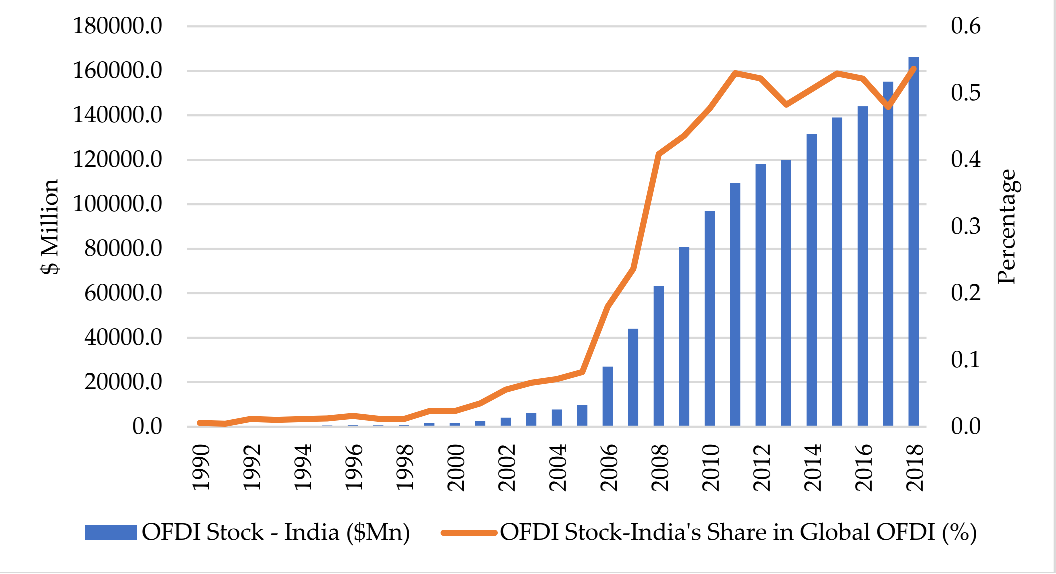
19 RBI/2014-15/117, A.P. (DIR Series) Circular No.1, 3 July 2014.

is linked to the size (net-worth) of the investors; larger the size, higher the amount that could be invested in foreign countries.

Another important difference in the policies during the quasi-liberal and liberal phases is that the geo-political considerations was a key factor in the policy during the quasi-liberal phase, which is evident in the higher ceiling amount fixed for the SAARC countries. The guidelines of 1995, had stated that one of the objectives of OFDI was to ensure that Indian industry and business attain strategic positions in certain geographical areas. The 1995 guidelines also articulated other objectives of government in permitting OFDI – promotion of exports, acquisition of technology and other resources and market seeking. Whereas in the post 2004 period, we do not see any such articulation of the expectation of the Government in further liberalising OFDI. We may assume that the objectives articulated in the 1995 guidelines still holds with the exception of geo-political considerations. The notifications issued during the post-2004 period, does not indicate preference to any geographical area. While the carve-outs during the quasi-liberal phase was on account of geo-political considerations, carve-outs during the liberal phase is based on economic considerations of securing energy resources; only investors in petroleum and oil sector are allowed to invest in unincorporated entities in foreign countries.

There is a significant difference in the trends in growth of India's OFDI stock during the quasi-liberal and liberal phases. India's OFDI stock data, provided by UNCTAD, is presented in Figure 1. In the second half of the quasi-liberal period, i.e., from 1999 to 2004, there was increase in the OFDI stock of India. In 1999, the OFDI stock reached $1666 million as compared to $706 million in the previous year; an increase of 136%. Raising limit of

Figure 1: OFDI Stock of India



Source: Compiled from UNCTAD UNCTAD

automatic approval from $4 million to $15 million in 1997 seems to have influenced the spurt in 1999. Investors may take some time to respond to change in the policy. As we can see from the figure 1, there was an increase in the OFDI stock, at a faster pace, during the initial years of liberal phase. It increased from $9741 million in 2005 to $27063 million in 2006; an increase of 178%. Replacing 'ceiling limit' system with 'size of investor' system seems to have encouraged more OFDI from India. Despite the growth in India's OFDI, it's share in global OFDI is very small – only 0.5%.

RBI-ODI data for the period from 2000-01 to 2018-19 is presented in Table 3. Investments in equity constitute three-fourth (66.4%) of the total OFDI, followed by loan (32.3%) and guarantee invoked (1.3%).

Table 3: General Trends in OFDI Flow of India

Year	*Equity ($Mn)*	*Loan ($Mn)*	*Guarantee Invoked ($Mn)*	*Total OFDI ($Mn) (2+3+4)*	*Guarantee Issued ($Mn)*
1	*2*	*3*	*4*	*5*	*6*
2000-01	602.1	70.6	5.0	677.7	112.6
2001-02	878.8	120.8	0.4	1000.0	155.9
2002-03	1746.3	102.1	0.0	1848.4	139.6
2003-04	1250.0	316.6	0.0	1566.6	440.5
2004-05	1482	513.2	0.0	1995.2	316
2005-06	6657.8	1195.3	3.3	7856.4	546.8
2006-07	12062.9	1247	0.0	13309.9	2261.0
2007-08	15431.5	3075	0.0	18506.5	6553.5
2008-09	10732.3	3333.2	0.0	14065.5	3104.9
2009-10	6761.7	3602.8	24.2	10388.7	7600.8
2010-11	9351.8	7346.9	52.5	16751.2	27230.5
2011-12	6288.4	8325.2	0.0	14613.6	16249.4
2012-13	5856.2	4351	0.0	10207.2	16665.2
2013-14	10194.5	3725.5	64.9	13984.9	22980.5
2014-15	3985.7	2852.9	35.7	6874.3	24080.9
2015-16	4753.8	3354.5	74.2	8182.5	13908.4
2016-17	9301.9	4106.8	319.5	13728.2	11454.3
2017-18	5650.2	4732.9	1286.2	11669.3	8272.0
2018-19	6234.7	5566.4	466.9	12268.0	8473.2
Total for the above years	**119222.6**	**57938.7**	**2332.8**	**179494.1**	**170546.0**

Source: Compiled from Khan (2012); RBI-ODI and DEA

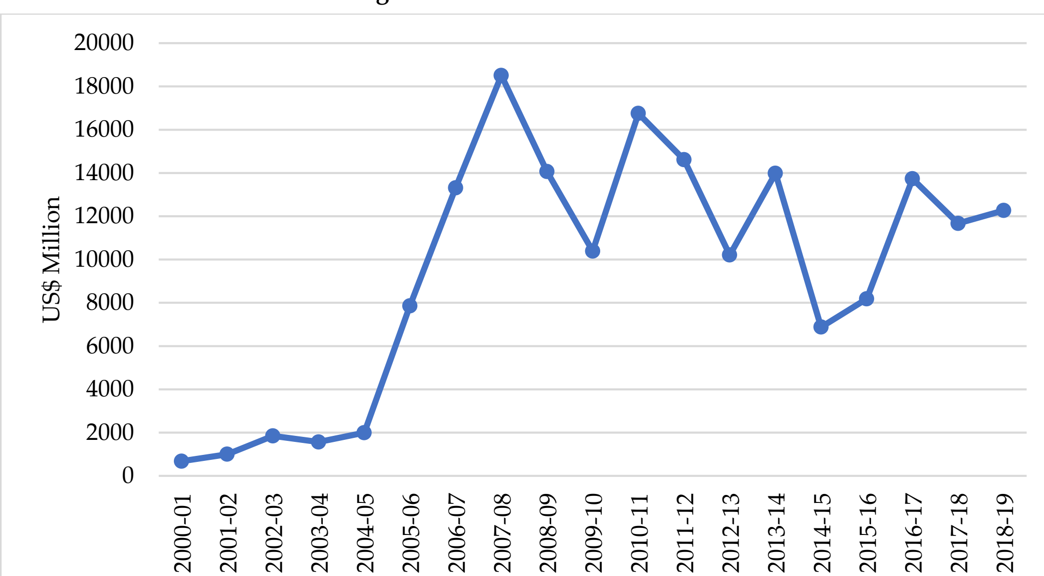
Note: Data on equity, loan and guarantee issued up to 2007-08 is taken from Khan (2012) and 2008-09 onwards from RBI's monthly data on ODI. Data on Guarantee invoked up to 2011-12 is from Khan (2012) and 2012-13 onwards from DEA.

Above table shows that annual OFDI flows exhibited a growing trend till 2007-08. However, the outflows began to decline since 2008-09 (Figure 2), the period of global financial crisis. The UNCTAD data shows that OFDI globally declined since 2008; it grew at 18% (CAGR) between 2001 and 2007, whereas the growth declined to -5% (CAGR) during 2008 to 2018 period.

Figure 3 shows that the guarantee issued by Indian companies increased tremendously after 2005-06, when the restriction imposed on non-promoted companies to issue guarantees was removed. For many years, the guarantees issued was much more than actual OFDI outflow. The rate of invoking of guarantee issued, however, is as low as 1.4%.

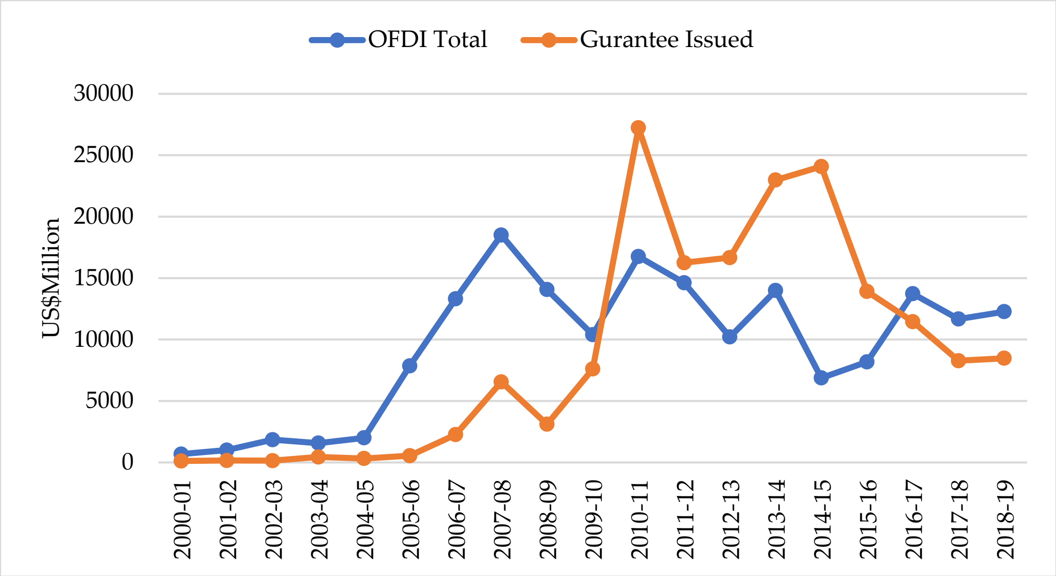
The literature on India's OFDI identifies seven factors that have contributed to its growth. One is the need of accessing international market. Economic reforms introduced since the early 1990s resulted in major changes in the strategies of Indian firms. There was a surge in the fixed investment of incumbent firms to expand manufacturing capacity and distribution networks in their attempt to face external competition. However, the economic downturn in the post 1995-96 period, led to unutilised excess capacity. This led to the realisation of the perils of excessive dependence on domestic market when economies are increasingly getting integrated. Large and successful Indian companies began to establish their presence in foreign markets (Nagaraj 2006). As we have seen, Indian OFDI stock began to show a growing trend from the late 1990s. This was also the period, when ceiling limit of automatic approval was enhanced and new sectors (financial services) were opened up for OFDI. In sectors like pharmaceuticals, Indian firms buy foreign firms in order to access the prescription drug market (Nagaraj 2006).

Figure 2: OFDI Flow from India



Source: UNCTAD

Figure 3: India's OFDI and Guarantee Issued



Source: Same as Table 3.

Second is the quest for moving up in the value chain. Many Indian firms, known for their efficiency and quality, continue to remain at lower ends of the value chain. Acquisition of foreign firms would enable them to move up the value chain. Acquisition of foreign firms allow them to undertake investments in technology-intensive businesses while continue to produce labour intensive production in India. Indian firms in the automobile and software sectors have invested abroad with the objective of climbing up the value chain (Nagaraj 2006).

Third is the capacity that was created during the import substitution regime. During this period, capabilities for the growth of firms and industrialisation – development of higher education system, establishment of social institutions and legal frameworks, creation of physical infrastructure, etc. were created. Entrepreneurial abilities were also created in this process. This laid the foundation for Indian firms to internationalise, when economy was liberalised since the 1990s (Nayyar 2008).

Fourth is the confidence gained by Indian companies while withstanding the difficulties in the initial phase of economic reforms. Liberalisation had resulted in layoffs, retrenchments, closures, hostile take-overs, etc. Those firms sustained this phase had the experience of competing with foreign firms in the domestic market which transformed into a confidence of competing with foreign firms in global market (Nayyar 2008).

Fifth is the need to acquire international brand names. According to Nayyar (2008), acquisition of Tetley Group in the UK by Tata and Daewoo in Korea by Tata are examples of this.

Sixth is the requirement of accessing technology. Acquisition of Hansen Transmissions in Belgium by Suzlon Energy is an example such OFDI (Nayyar 2008).

Seventh is the need for sourcing raw materials and energy resources. Acquisition of shares in Petrobras in Brazil and the Greater Nile Oil Project in Sudan by ONGC are examples of this (Nayyar 2008).

4. India's OFDI during the period from 2008 to 2018

4.1. Methodology

RBI provides investor-wise OFDI outflow data since July 2007. In order to have year wise analysis, data was compiled from January 2008 to December 2018, a period of 11 years. There are 11254 investors investing abroad of US$131375.65 Million during this period[20]. As discussed earlier, analysis based on sector focus of JV/WOS abroad as described in the RBI data will be improper due to lack of adequate information on the real sector focus of JV/WOS. However, we do have the information on the sector focus of Indian investors who invest abroad. Identification of the focus sector of 11254 investors is a time-consuming process. Therefore, a cut-off of $ 50 million is used to identify those investors who have invested $50 million or above during the period between January 2008 and December 2018. Thus, there are 348 investors investing an amount of $110638.2 million during this period. This OFDI amount constitutes 84.2% of total OFDI during the same period.

The Prowess database of Centre for Monitoring Indian Economy (CMIE) has been used as a handy source of information to identify the focus sector of the investors. However, the information that is available in Prowess is cross-checked with annual reports of investors and internet search. For those firms, which do not figure in prowess database, information was collected from their annual reports and internet search. In some cases, it is found that the classification by Prowess is not appropriate for our purposes and in such cases we classified the investors based on their product composition. For example, Piramal Enterprises is classified in Prowess as 'diversified'. It's Annual Report (2017-18) shows that financial services constitutes 47% of the turnover of the company, followed by pharmaceuticals (42%) and healthcare insight and analytics (11%). As financial services constitute largest share of the turnover the company, Piramal Enterprises has been classified as 'financial services' firm in this paper. Similarly Prowess classifies Mahindra Aerospace as specialising in management consultancy services. However, a search in the company website and other sources shows that it is specialising in the manufacture of small aircrafts and aerospace components. Therefore, Mahindra Aerospace has been classified as aircraft manufacturer in this paper.

The sector focus of Indian investors, thus arrived at, was matched with the International Standard Industrial Classicisation (ISIC, Rev.4) and National Industrial Classification (NIC) 2008 of India. Table 4 provides the classification of broad economic activities in ISIC/NIC.

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[20] 11254 is the figure arrived at after standardisation of Indian investors. It may be still possible that some names are double counted due to slight mistakes such as spelling errors.

Table 4: Classification of Sector Focus of Indian OFDI Investors

Broad Classification of Economic Activities	*Classification of Economic Activities*		*Economic Activities Categorised Based on Technology/Knowledge Intensity*	
	Section in ISIC Rev.4/NIC 2008	*Detailed description of the activity*	*ISIC Rev.4*	*NACE Rev.2*
Agriculture and Mining	A	Agriculture, forestry and fishing	--	--
	B	Mining and quarrying	--	--
Manufacturing	C	Manufacturing	Yes	Yes
Services	D	Electricity, gas, steam and air conditioning supply	--	--
	E	Water supply; sewerage, waste management and remediation Activities	--	--
	F	Construction	--	--
	G	Wholesale and retail trade; repair of motor vehicles and motorcycles	--	Yes
	H	Transportation and storage	--	Yes
	I	Accommodation and food service activities	--	Yes
	J	Information and communication	--	Yes
	K	Financial and insurance activities	--	Yes
	L	Real estate activities	--	Yes
	M	Professional, scientific and technical activities	--	Yes
	N	Administrative and support service activities	--	Yes
	O	Public administration and defence; compulsory social security	--	Yes
	P	Education	--	Yes
	Q	Human health and social work activities	--	Yes
	R	Arts, entertainment and recreation	--	Yes
	S	Other service activities	--	--
--	T	Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	--	--
	U	Activities of extraterritorial organizations and bodies	--	--

The Indian OFDI investors were also categorised based on the technology intensity of the industry in which they operate. This categorisation is based on European Commission's (EC) 'Statistical Classification of Economic Activities in the European Community' (NACE) classification of technology-intensity of manufacturing industries and knowledge-intensity of services. NACE is derived from ISIC and both have same items at the aggregate level (two-digit level); but NACE is more detailed at lower levels. ISIC's classification of economic activities based on technology intensity is confined to manufacturing industries. Whereas, NACE also categorises services based on their knowledge-intensity. NACE classifies manufacturing industries into high-technology, medium high technology, medium low technology and low technology industries. And services are classified into Knowledge-Intensive Services (KIS), which constitutes also of High-Tech Knowledge Intensive Services (HTKIS), and Less Knowledge-Intensive Services (LKIS). Manufacturing industries are categorised based on R&D intensity of industries at NACE 2-digit level[21]. The knowledge intensity of services are worked out based on the share of tertiary educated persons in total labour force at NACE 2-digit level. An activity is considered to be knowledge intensive if tertiary educated persons employed constitute one-third (33%) of total employment in that activity. Table 4 also provides the sectors, which have been considered in NACE's classification based on technology intensity and knowledge intensity.

As shown in Table 4, NACE Rev. 2 does not consider Sections D,E and F of ISIC Rev.4, i.e., 'Electricity, gas, steam and air conditioning supply'; 'Water supply; sewerage, waste management and remediation Activities'; and 'Construction' while classifying a service as KIS or LKIS. In this study, these sections have also been included in the category of LKIS.

4.2. Indian OFDI: Sectors of origin

Sector of origin, classified in accordance with ISIC Rev.4, of Indian OFDI is presented in Table 5.

Overall, services has been the leading sector in OFDI with a share of 41.9%, closely followed by the manufacturing sector with 40.7% (Table 5). Agriculture and mining accounts for the remaining 17.4%. Table 6 provides year-wise OFDI by each sector.

Table 6 shows that the share of the manufacturing sector, which was the leading sector during the initial years of analysis of this study, gave way for services sector from the beginning of this decade. However, in terms of amount of annual outflow of investment there has been a declining trend over the period of analysis.

[21] In a few cases, technology intensity is worked out at 3 digit levels also.

Table 5: Sectors of Origin of Indian OFDI (2008 to 2018)

Details of the Economic Activity	*OFDI ($Mn.)*
A. Agriculture and Mining	**19234.2**
Agriculture, Forestry and Fishing	374.2
Mining and Quarrying	18860.0
Oil and gas; offshore drilling; Oilfield support activities	*18368.8*
B. Manufacturing	**44995.9**
Iron and steel	*7847.1*
Pharmaceuticals	*7372.4*
Automobiles and automobile components	*6862.6*
Refinery (Petroleum)	*3073.7*
Metals	*2846.0*
Chemicals	*2538.3*
Boilers and turbines	*1654.4*
Paper and Newsprint	*1515.5*
Textiles	*1103.8*
Electrical Equipment	*859.9*
C. Services	**46408.1**
Information and Communication Services	16561.6
Software	*6077.1*
Telecommunication services	*5959.0*
Broadcasting	*1831.0*
ITES	*1118.3*
Insurance and Financial Activities	7270.1
Construction	6499.0
Electricity, Gas, Steam and Air-conditioning	4889.9
Transportation and Storage	4120.6
Wholesale and Retail Trade	2223.5
Administrative and support service activities	1374.2
Accommodation and Food Service Activities	935.3
Human Health and Social Service Activities	770.6
Professional, Scientific and Technical Activities	512.0
Financial and Insurance Activities	395.4
Education	384.9
Real Estate Activities	406.2
Arts, Entertainment and Recreation	64.8
Grand Total (A+B+C)	**110638.2**

Source: Compiled from RBI-ODI.

Table 6: OFDI by various sectors during the period from 2008 and 2018 ($Mn.)

Year	*Agriculture and Mining*	*Manufacturing*	*Services*	*Grand Total*
2008	1925.5	5713.4	4600.9	12239.8
2009	2873.3	5207.3	3204.5	11285.0
2010	1055.2	5731.8	4081.6	10868.7
2011	1031.6	6738.1	7825.9	15595.6
2012	331.7	2990.4	5102.3	8424.4
2013	1071.4	3079.9	3373.3	7524.6
2014	6188.8	2084.3	2225.1	10498.2
2015	253.2	1908.0	2894.8	5056.0
2016	1438.5	4598.9	4532.4	10569.8
2017	1681.0	4180.4	4653.6	10515.0
2018	1384.1	2763.3	3913.7	8061.0
Grand Total	19234.2	44995.9	46408.1	110638.2

Source: Same as table 5.

4.3 Indian OFDI: Destination

Destination countries of Indian OFDI has been classified into developing countries and developed countries based on the classification of countries by the United Nations[22].

Developing countries used to be the major destination of OFDI from India. But, this seems to be changing. There has been a declining trend in the annual OFDI flows to developing countries (Figure 4). Whereas the investment to developed countries has been increasing marginally.

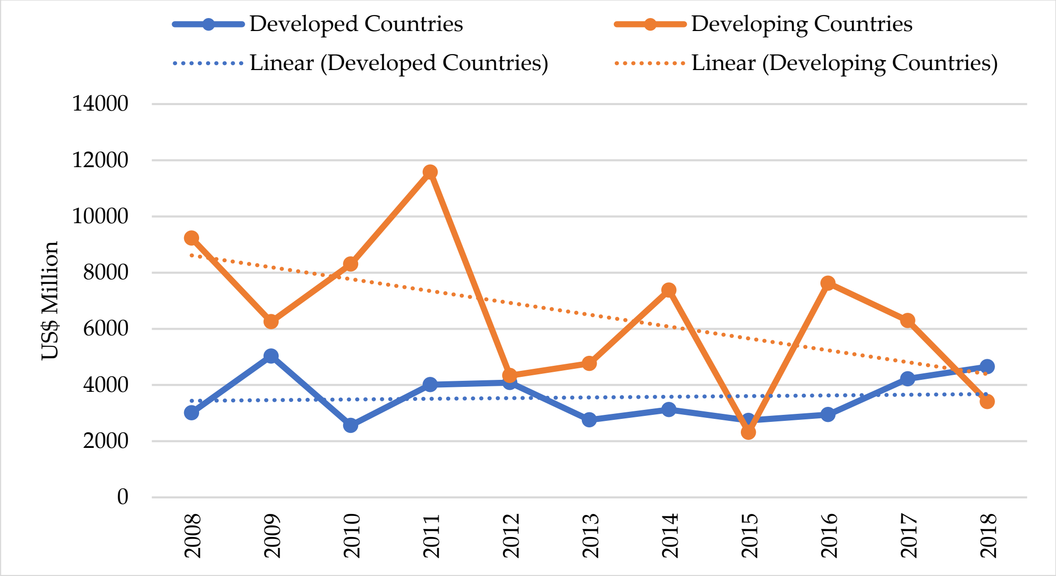
More disaggregated data (Table 7) shows that in agriculture and mining developing countries lead as destination countries. In services also, developing countries have been the leading destinations except for 2018. In manufacturing sector as well, developing countries used to be the leading destinations. But from 2012 onwards, there is change in this trend in favour of developed countries.

Table 8 provides the details of leading sectors of OFDI in developing countries. Nearly half of the OFDI destined to developing countries is going to developing countries in Asia, followed by Africa. In agriculture and mining, oil and gas is the leading sector in all regions of developing countries. In the manufacturing sector, electrical equipment, pharmaceuticals, automobiles and auto components, metals, etc. are the leading sectors from where investments destined to developing countries are originating. In services, the leading sectors include financial services, software, construction and telecommunication services.

[22] https://unctadstat.unctad.org/EN/Classifications.html

Table 9 shows the leading sectors from where investments destined towards developed country regions are originating. Like in the case of developing country regions, oil and gas is the leading sector of investment in agriculture and mining. Pharmaceuticals, iron and steel, automobiles and automobile components, etc. are the leading sectors in manufacturing sector ODFI. Software, telecommunication services, etc. are the leading sectors in services.

Figure 4: OFDI from India: Destination country category



Source: Same as table 5.

Table 7: OFDI destination countries (Sector-wise, in $million)

	Agriculture and Mining		*Manufacturing*		*Services*	
	Developed Countries	*Developing Countries*	*Developed Countries*	*Developing Countries*	*Developed Countries*	*Developing Countries*
2008	87.8	1837.6	1777.3	3936.1	1145.9	3455.0
2009	2064.9	808.3	1246.0	3961.3	1719.8	1484.6
2010	231.4	823.8	1299.9	4431.9	1030.8	3050.9
2011	203.8	827.9	2442.6	4295.5	1367.3	6458.6
2012	71.3	260.4	1609.6	1380.8	2406.1	2696.3
2013	45.9	1025.5	1325.3	1754.6	1385.6	1987.7
2014	941.5	5247.2	1346.1	738.2	835.4	1389.7
2015	47.6	205.6	1245.4	662.6	1445.3	1449.5
2016	51.9	1386.6	1313.6	3285.3	1579.7	2952.7
2017	115.7	1565.3	2332.9	1847.6	1772.8	2880.8
2018	275.0	1109.0	1582.4	1180.9	2792.4	1121.3
Grand Total	4136.9	15097.3	17521.0	27474.9	17481.0	28927.0

Source: Same as table 5.

Table 8: Details of India's OFDI to developing countries (Region-wise)

Region		*Agriculture and Mining*		*Manufacturing*		*Services*	
Name of the Region	*Share (%)**	*Major Sectors*	*Share (%)***	*Major Sectors*	*Share (%)***	*Major Sectors*	*Share (%)***
Africa	36.0	Oil and gas	91.2	Metals	24.3	Financial Services	27.9
				Chemicals	15.7	Telecommunication Services	18.9
				Boilers and Turbines	11.7	Construction	12.9
America	13.9	Oil and gas	92.6	Pharmaceuticals	29.7	Construction	55.0
				Consumer Electronics	22.9	Electricity	16.6
				Beverages	18.8	Broadcasting	13.3
Asia	43.7	Oil and gas	73.6	Automobiles and auto components	31.6	Software	14.2
				Iron and Steel	30.9	Electricity	12.9
				Petroleum Refinery	11.9	Construction	10.1
Europe	6.3	Oil and gas	100.0	Electrical Equipment	34.3	Construction	87.2
				Minerals	27.7		
				Pharmaceuticals	25.4		

Source: Same as table 5.

Note: * Share of the region in total OFDI to developing countries. ** Share in total OFDI to the developing countries in the region.

Table 9: Details of India's OFDI to developed countries (Region-wise)

Region		*Agriculture and Mining*		*Manufacturing*		*Services*	
Name of the Region	*Share (%)**	*Major Sectors*	*Share (%)***	*Major Sectors*	*Share (%)***	*Major Sectors*	*Share (%)***
America	29	Oil and gas	97.9	Iron and Steel	50.0	Software	34.1
				Pharmaceuticals	14.2	Electricity	19.7
				Farm Equipment	12.8	Trading	14.3
Asia	0.1	Oil and gas	100.0	Pharmaceuticals	52.6	Broadcasting	50.4
				Automobiles and automobile components	46.4	Software	30.7
						Tours and Travels	18.0
Europe	68.6	Oil and gas	95.1	Pharmaceuticals	32.3	Telecommunication Services	19.1
				Automobiles and automobile components	13.5	Financial Services	18.7
				Paper and Newsprint	6.3	Software	10.8
Oceania	2.0	Oil and gas	100.0	Aircrafts	59.6	Infrastructure	47.8
				Pharmaceuticals	21.9	Software	26.5
						Construction	14.6

Source: Same as table 5.

Note: * Share of the region in total OFDI to developing countries. ** Share in total OFDI to the developing countries in the region.

4.4. Technology and Knowledge Aspects of Indian OFDI

Analysis in this section is based on the NACE classification of manufacturing industries and services based on their technology and knowledge intensity, respectively. Manufacturing industries are classified into high-technology, medium high technology, medium low technology and low technology industries. Services are classified into KIS, which includes HTKIS and LKIS.

4.4.1. Manufacturing Sector

Classification of Indian OFDI, originating from the manufacturing sector, based on technology intensity is shown in Table 10. It also shows that medium-low technology sectors are the leading sources of OFDI, followed by medium-high technology, high technology and low technology sectors, respectively. However, during the period of analysis, the share of high technology and medium-low technology sectors have increased whereas the share of other two category of sectors have declined (Figure 5).

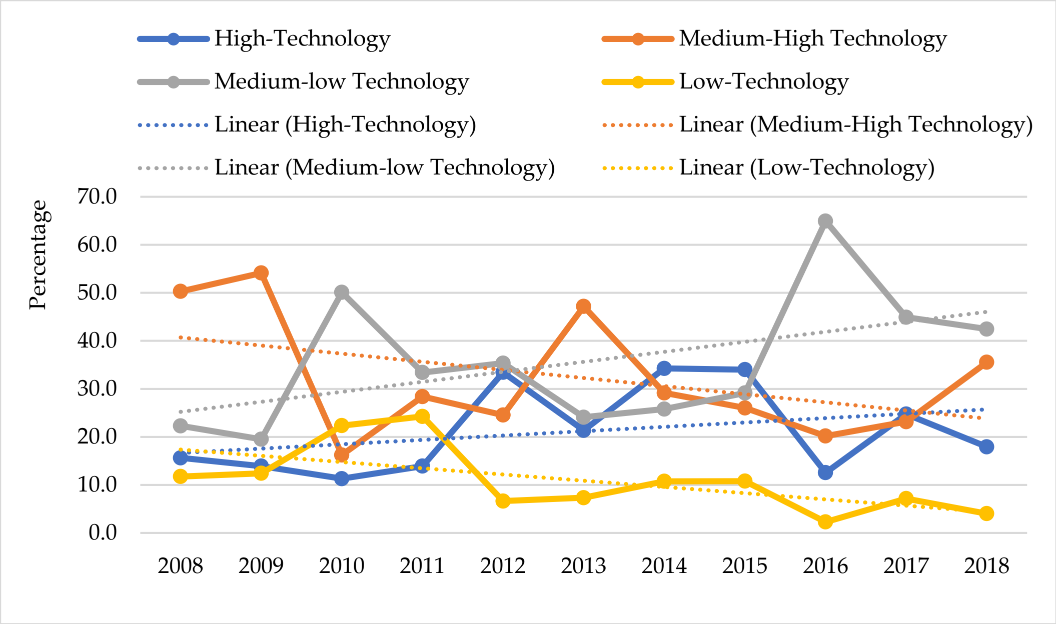
Leading industries within each of the technology-intensity categories is provided in Tables 11 to 14. The leading destination countries for OFDI in high-technology sectors are developed countries (Figure 6). Whereas in medium-technology industries, which accounts for 69% of OFDI in the manufacturing sector, OFDI is destined mostly to developing countries. In low-technology sectors, there is not much difference between developed and developing countries in terms of OFDI destination.

Table 10: Technology Intensity of Indian OFDI Originating from the Manufacturing Sector (in $ million)

	High-Technology	*Medium-High Technology*	*Medium-low Technology*	*Low-Technology*	*Grand Total*
2008	893.7	2874.1	1273.9	671.8	5713.4
2009	725.4	2818.5	1016.4	647.0	5207.3
2010	648.2	930.7	2871.8	1281.1	5731.8
2011	938.6	1913.4	2251.3	1634.9	6738.1
2012	1000.0	734.0	1057.6	198.8	2990.4
2013	658.4	1452.7	742.3	226.4	3079.9
2014	714.2	608.0	537.9	224.3	2084.3
2015	648.9	496.8	556.2	206.1	1908.0
2016	577.7	928.2	2986.9	106.1	4598.9
2017	1034.4	968.9	1877.6	299.5	4180.4
2018	495.8	982.3	1173.4	111.6	2763.3
Grand Total	8335.4	14707.6	16345.5	5607.4	44995.9

Source: Compiled by author from RBI-ODI based on European Commission's NACE Classification.

Figure 5: Share of OFDI Sectors (Technology Intensity-wise)



Source: Same as table 10

Table 11: Leading OFDI sectors within High-Technology Manufacturing

Name of the Sector	*US$ Mn.*	*Share %*
Pharmaceuticals	7372.4	88.4
Consumer Electronics	716.2	8.6
Medical Devices	151.2	1.8
Aircrafts	95.6	1.1
Total for the above	8335.4	100.0

Source: Same as table 10

Table 12: Leading OFDI sectors within Medium High-Technology Manufacturing

Name of the Sector	*US$ Mn.*	*Share %*
Automobiles and automobile components	6862.6	46.7
Chemicals	2538.3	17.3
Boilers and turbines	1654.4	11.2
Electrical Equipment	859.9	5.8
Cosmetics, toiletries, soaps and detergents	779.3	5.3
Total for the above	12694.5	86.3

Source: Same as table 10

Table 13: Leading OFDI sectors within Medium Low-Technology Manufacturing

Medium Low-Technology	*US$ Mn.*	*Share %*
Iron and steel	7847.1	48.0
Refinery (Petroleum)	3073.7	18.8
Metals	2846.0	17.4
Cement	617.0	3.8
Pipes and tubes	372.5	2.3
Total for the above	14756.3	90.3

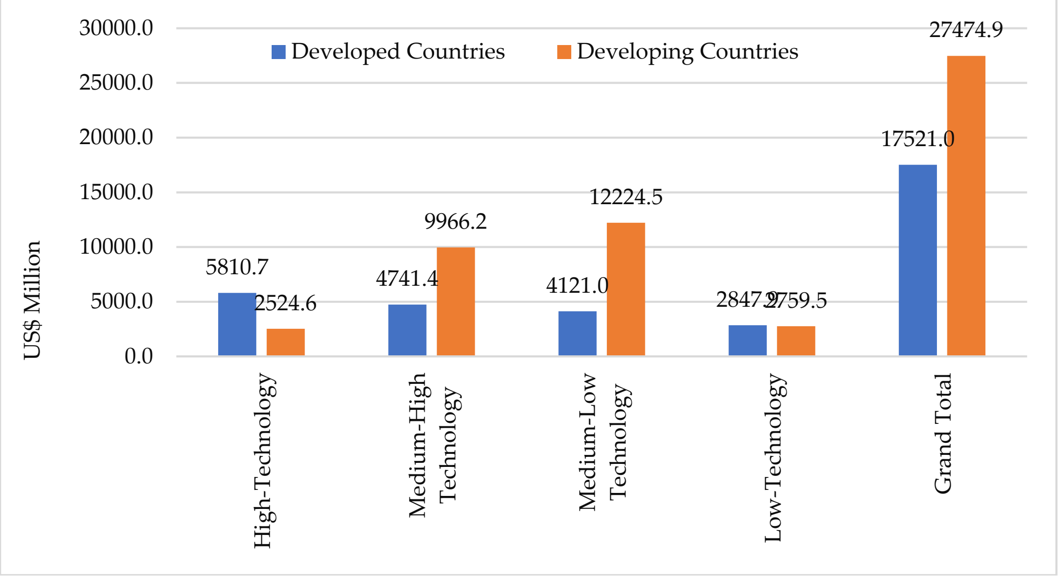
Source: Same as table 10

Table 14: Leading OFDI sectors within Low-Technology Manufacturing

Low-Technology	*US$ Mn.*	*Share %*
Paper and newsprint	1515.5	27.0
Textiles	1103.8	19.7
Beverages	845.2	15.1
Traditional crafts and clothing	713.7	12.7
Gems and jewellery	407.1	7.3
Sugar	378.4	6.7
Poultry and meat products	307.5	5.5
Total for the above	5271.2	94.0

Source: Same as table 10

Figure 6: Technology Intensity and Destination of Indian OFDI in Manufacturing



Source: Same as Table 10.

4.4.2. Services

Table 15 provides the details of KIS and LKIS in Indian OFDI. KIS constitutes 58% of total OFDI by the service sector. During the period from 2008 to 2018, the share of KIS has increased and that of LKIS has declined. Within KIS, HTKIS account for more than 60% share.

The OFDI from HTKIS is originating from information and communication services and entertainment. Details of services OFDI that constitute HTKIS OFDI is given in Table 16. Among the services listed in this table, only entertainment falls out of information and communication services as classified by ISIC (Rev.4) and NACE (Rev.2).

Table 16 shows that software, telecommunications, broadcasting and ITES constitute 90% of the OFDI from HTKIS. Overall, the table shows that HTKIS OFDI is more focused on developing countries. However, Table 17 shows that in the leading four services (as given in table 16), tax havens are a major focus of OFDI. Since we do not have the information on the final destination of such OFDI, it may be misleading to firmly conclude that developing countries are leading destinations of HTKIS OFDI.

In KIS, the services of origin of OFDI (other than HTKIS) is provided in table 18. Financial services accounts for nearly three-fourth of OFDI from India in KIS (other than HTKIS).

It is found (in Figure 7) that developing countries are leading destinations of OFDI in KIS and LKIS. As considerable proportion of the OFDI is going to tax havens, one is not very clear about the final destination of the investment. However, it is highly probable that Indian investors from the services sector is more competitive in doing business in developing countries, which have similar levels of development and less rigorous regulations as compared to advanced countries.

Table 15: Technology Intensity of Indian OFDI Originating from the Services Sector (in $Million)

Year	*Knowledge-Intensive Services*			*Less Knowledge-Intensive Services*	*Grand Total*	*KIS (%)*	*LKIS (%)*
	KIS	*HTKIS*	*HTKIS (%)*				
2008	2613.8	2153.8	82.4	1987.1	4600.9	56.8	43.2
2009	1430.3	1124.8	78.6	1774.2	3204.5	44.6	55.4
2010	2489.6	1216.7	48.9	1592.0	4081.6	61.0	39.0
2011	4143.4	2036.4	49.1	3682.5	7825.9	52.9	47.1
2012	3354.6	2357.7	70.3	1747.8	5102.3	65.7	34.3
2013	2758.2	2002.8	72.6	615.2	3373.3	81.8	18.2
2014	1127.0	650.4	57.7	1098.0	2225.1	50.7	49.3
2015	1781.1	1056.8	59.3	1113.7	2894.8	61.5	38.5
2016	1664.0	687.1	41.3	2868.4	4532.4	36.7	63.3
2017	2935.6	2152.1	73.3	1718.0	4653.6	63.1	36.9
2018	2735.5	1123.1	41.1	1178.1	3913.7	69.9	30.1
Grand Total	27033.1	16561.6	61.2	19375.0	46408.1	58.3	41.7

Source: Same as Table 10.

Table 16: Indian OFDI from HTKIS ($ Million)

Name of Service	*Developed Countries*	*Developing Countries*	*Grand Total*
Software	3513.0	2564.2	6077.1
Telecommunication services	2078.5	3880.5	5959.0
Broadcasting	428.2	1402.9	1831.0
ITES	671.1	447.2	1118.3
Media	489.2	391.2	880.3
Entertainment	322.1	136.3	458.3
Aggregators	119.0	58.6	177.6
Data Processing	20.5	39.4	59.9
Grand Total	**7641.4**	**8920.2**	**16561.6**

Source: Compiled from RBI-ODI, European Commission's NACE Classification and UN classification of countries into developed and developing countries.

Table 17: Destination of OFDI originating from HTKIS

Software		*Telecommunications*		*Broadcasting*		*ITES*	
Destination Country	*Share (%)*	*Destination Country*	*Share (%)*	*Destination Country*	*Share (%)*	*Destination Country*	*Share (%)*
United States of America	26.4	Mauritius	38.1	Mauritius	28.9	Mauritius	26.4
Singapore	20.1	Netherlands	32.5	British Virgin Islands	27.5	British Virgin Islands	20.1
Mauritius	11.5	Singapore	20.2	Singapore	20.1	Singapore	11.5
Bermuda	8.3	Sri Lanka	4.7	United States of America	12.6	United States of America	8.3
Total (for above)	66.3	Total (for above)	95.5	Total (for above)	89.2	Total (for above)	66.3

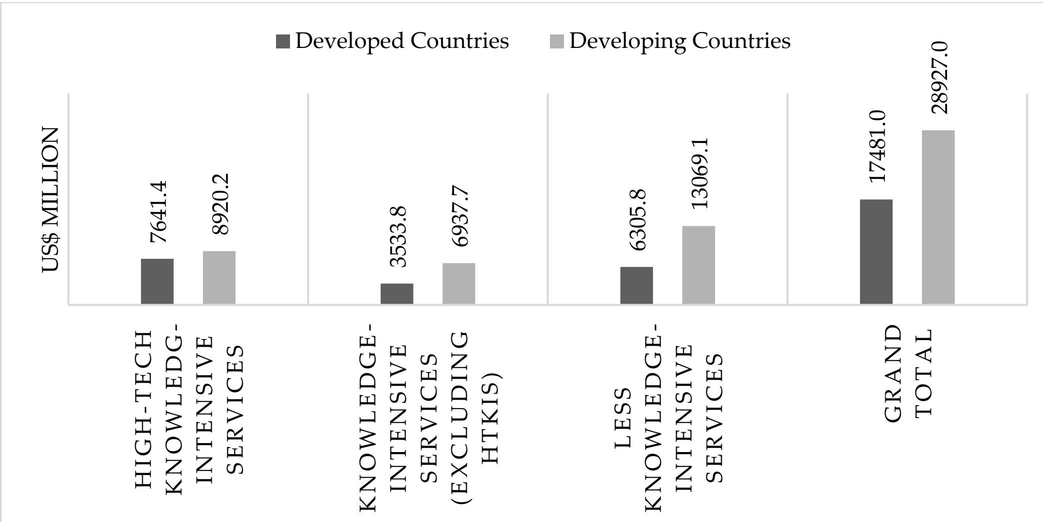
Source: Compiled from RBI-ODI

Table 18: Leading services of origin of OFDI in KIS (other than HTKIS) (2008-2018)

Details of Services	*OFDI ($ Mn.)*	*Share %*
Financial Services	6799.4	64.9
Shipping Transport Services	928.5	8.9
Hospital Service	770.6	7.4
Banking services	399.3	3.8
Securities broking	395.4	3.8
Total for the above	9293.3	88.7
Grand Total	10471.5	100.0

Source: Same as table 17.

Figure 7: Knowledge-Intensity and Destination of Indian OFDI in Services



Source: Same as table 10.

5. Summary

India's approach to OFDI has undergone a major change since the announcement of first guideline in 1969. It's focus now is on maximising gains to India in ways such as promotion of exports, securing of energy resources and acquisition of technology. The government has now withdrawn considerably from interfering in the outward investment decisions of Indian investors. Liberalisation measures in OFDI introduced since 2004 has resulted in an increase in the OFDI flows from India. However, the fact is that India's share in global OFDI stock is negligible (0.5%) despite the liberalisation measures.

Services is the leading sector of origin of OFDI, followed by manufacturing and agriculture & mining. In services and agriculture & mining, developing countries are the major destinations. In manufacturing sector also, developing countries used to be the major destination countries, but this trend began to change from the early years of this decade.

Much of the OFDI (two-third to three-fourth) originating from the manufacturing sector is from medium technology sectors. Share of OFDI from high technology sectors has been on the rise; its share in total manufacturing OFDI increased from 16% in 2008 to 24% in 2017. Whereas, the share of OFDI from low technology sectors has been declining. Pharmaceuticals, automobiles and iron & steel are the leading sectors of origin of OFDI from high and medium technology sectors.

In OFDI originating from the services sector, 42% of the investments are from less knowledge intensive services. More than one-third (36%) is from high knowledge intensive services like information and communication services and 23% from other knowledge intensive services. In all categories of services OFDI, developing countries are the major destinations.

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