



Institute of Economic Growth



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Seminar on
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*India's Emerging Multinationals:
Trends, Patterns and Determinants of outward
investments*



by

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Objectives



- Outward investment from India becoming a significant trend since 1990s
- Emerging patterns, trends
- Determinants: does the theory help?
- Policy implications

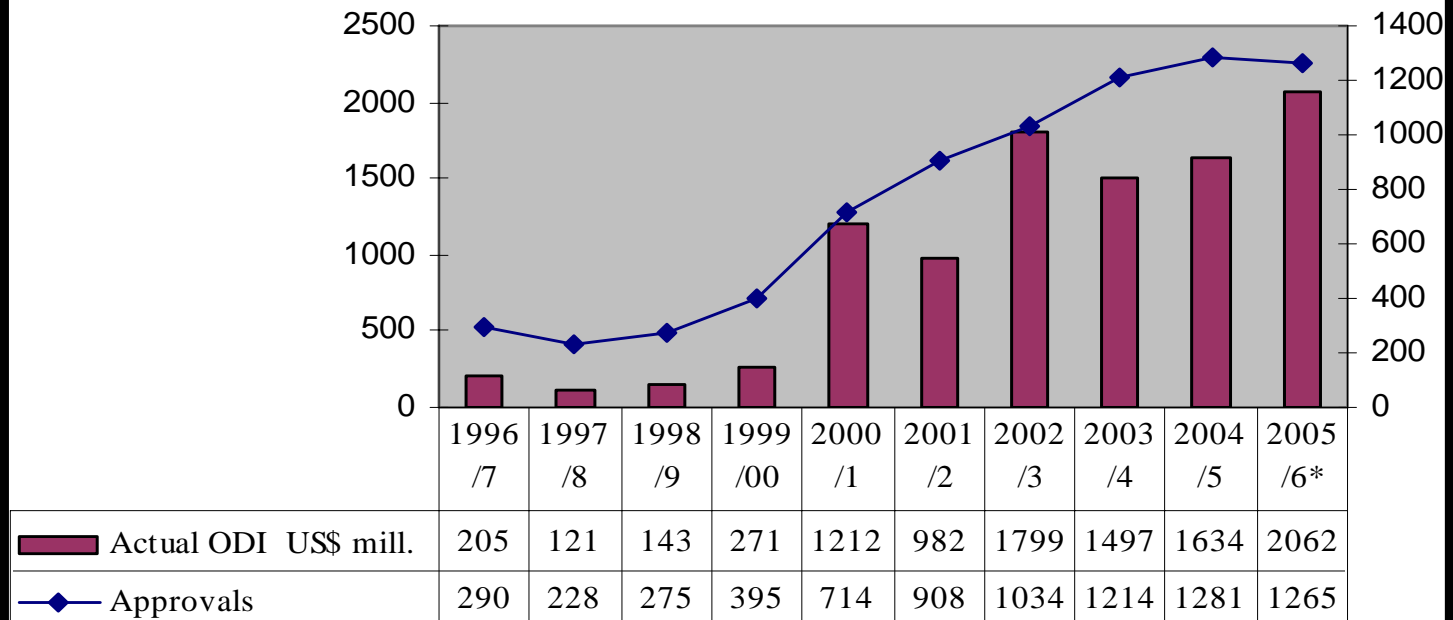
Policy Liberalization since 1991

- Guidelines revised 1992, 1999, 2002, 2004
- Automatic approval for outward investment upto 100% of net worth
- Financing of outward investment by Exim Bank
- Seen as an instrument of global economic integration of Indian economy

Trends and Patterns

Sharp rise in numbers and magnitudes especially since 2000

Figure 1: Indian Outward Investments, 1996/97 to 2005/6



Marked shift in Patterns after 1990

- **Geographical diversification**
 - Before 1990: concentrated largely in Asian and African developing countries
 - After 1990: nearly 60% in developed countries
- **Sectoral distribution**
 - Before 1990: 65% in manufacturing, generally low tech. sectors
 - After 1990: 60% in services; high-tech manufacturing, natural resources, extraction etc.
- **Changing motivations**
 - Before 1990: generally market seeking in low technology areas e.g. textiles & leather goods, light engineering
 - After 1990: seeking strategic assets, strategic access to markets, natural resources
 - Evolution of global corporate strategy: emergence of Indian MNEs

Determinants: hypotheses

- Sources of Ownership Advantages of Indian Enterprises
 - Accumulated learning (*LEARNING*): proxied by age of firms
 - Technological Effort (*TECHEFFORT*): proxied by R&D intensity
 - Product Differentiation (*BRANDS*): proxied by advertisement intensity
 - Cost Effectiveness (*COSTEFFECT*): proxied by price cost margins
 - Firm Size (*SIZE* and *SIZE*²): proxied by sales
 - Export-orientation (*EXPORT*)
 - Technological dependence (*TECHIM*, *MACHIM*) –*inverse*: intensity of royalty payments and machinery imports
 - Foreign ownership (*FOREIGN*)- *inverse*
- Policy change (*LIBERAL*)
- Industry effects

Data set and estimation methodology



- Sample: 4271 quoted companies from Prowess
- Panel data for period: 1988/89 to 2000/01
- Outward investment variable added on the basis of information gathered from government sources
- Logit model; ML estimation with robust standard errors

Findings

- *LEARNING, TECHEFFORT, BRANDS*: strong positive effect
- *SIZE*: inverted u-shaped effect
- *EXPORT*: strong positive effect
- *MACHIM* –ive effect
- *FOREIGN*- negative effect
- *LIBERAL*-positive effect
- Some variation in effectiveness of variables across technology classes:
 - ownership advantages effective in low and medium tech industries
 - Cost effectiveness effective in low technology industries

Concluding remarks

- Indian enterprises draw their ownership advantages from their accumulated production experience, technological effort for process adaptations and innovations, and ability to differentiate their product.
 - Encourage learning/ innovative activity/ branding
- Effect of firm size
 - Some consolidation of fragmented capacities might be useful
- Liberalization
 - Enabling policy environment helps



Thank you