Indian Investment Abroad in Joint Ventures and Wholly Owned Subsidiaries: 2007-08 (April-December) *

The Reserve Bank of India has been disseminating aggregate data on foreign direct investment (FDI) - both inward and outward - as part of India's Balance of Payments (BoP) position[1]. Since 2000-01, in line with international best practices, the coverage of FDI has been expanded to include more disaggregated data[2]. The present review on Indian investment abroad in joint ventures (JVs)/wholly owned subsidiaries (WOSs) is brought out along with the quarterly release of India's BoP statistics in order to further disseminate data on India's outward FDI covering the sectoral pattern and geographical distribution. This review thus, covers the Indian investment abroad in JVs and WOSs. The period of the review is April-December, 2007-08 and also the past trends since 2003-04.

Against the above backdrop, the review is organized in four sections. Section I sets out the trends in global outward FDI and outward FDI from developing countries. Section II presents the coverage and magnitude of outward FDI from India. The sectoral pattern and direction of India's outward FDI are given in Section III. Concluding observations are given in Section IV.

I. Outward Foreign Direct Investment: Global Trends

In the recent period, the transnational corporations (TNCs) from many

[1] According to special data dissemination standards (SDDS) requirement of the IMF, the BoP data are released on quarterly basis in the RBI website and also RBI Bulletin.

[2] In line with international best practices, the coverage of FDI has been expanded since 2000-01 for both inward and outward FDI to include, besides equity capital, reinvested earnings (retained earnings of FDI companies) and 'other direct capital' (intercorporate debt transactions between related entities). Data on equity capital include equity of incorporated bodies and equity of unincorporated entities (mainly foreign bank branches in India and Indian bank branches operating abroad).

* Prepared in the Division of International Trade, Department of Economic Analysis and Policy, Reserve Bank of India.

developing and transition economies have become important investors in developed as well as less developed countries either through mergers and acquisitions (M & As) or through green field investments [United Nations Conference on Trade and Development (UNCTAD), 2006]. TNCs from economies like China, Brazil, India, Russia and South Africa have emerged as global leaders in manufacturing and services sectors. While the strategies of the TNCs are essentially assets expanding and assets augmenting, active policy support from home and host countries also acts as drivers of outward FDI by these companies (Box).

According to the UNCTAD's World Investment Report (2007), the global outward FDI amounted to US $ 1,216 billion in 2006, recording a significant growth from US $ 230 billion in 1990. The global outward FDI stock stood at US $ 12,474 billion in 2006, as compared with US $ 1,815 billion in 1990. Outward FDI from developing economies amounted to US $ 174 billion in 2006, representing about 14 per cent of world outward FDI flows (US $ 1,216 billion) [Table 1]. The value of the outward FDI stock from developing economies was estimated at US $ 1.6 trillion in 2006, or 13 per cent of the world total (US $ 12.5 trillion).

II. India's Outward FDI (Overseas Investment)

II.1 Coverage

Indian residents are permitted to make investment in overseas joint ventures and wholly owned subsidiaries under automatic route and approval route. Under automatic route, all proposals are routed through designated authorised dealer banks. Under the automatic route, an Indian Party does not require any prior approval from the

Table 1: Outward Foreign Direct Investment: World and Developing Countries

(US $ billion)

Item	Value at current prices		
	2004	**2005**	**2006**
A. World outward FDI flows	**877**	**837**	**1216**
Outward FDI flows from developing economies	117	116	174
Of which:			
South Africa	1.4	0.9	6.7
Brazil	9.8	2.5	28.2
China	5.5	12.3	16.1
Korea	4.7	4.3	7.1
India	**2.2**	**2.5**	**9.7**
Singapore	8.1	5.0	8.6
Russian Federation	13.8	12.8	18.0
B. World outward FDI stock	**10325**	**10579**	**12474**
C. Income on outward direct investment	607	845	972
D. Cross border M & As	381	716	880
E. Total assets of foreign affiliates	42807	42637	51187
F. Exports of foreign affiliates	3733	4197	4707
G. Employment of foreign affiliates (in thousands)	59458	63770	72627

Source : UNCTAD, World Investment Reports (2006 and 2007).

BOX: Drivers of Outward Foreign Direct Investment

The Transnational Corporations (TNCs) of developing and transition economies are emerging global and regional players as sources of FDI. Cross-border mergers and acquisitions (M&As), especially those involving firms in developing countries, have spurred the recent increases in FDI. The key drivers influencing the investment decision by the TNCs of developing and transition economies are home country 'push factors' and host country 'pull factors'. The home country drivers influencing companies to move abroad broadly consist of market and trade conditions, costs of production (including constraints in factor inputs) and local business conditions. The market-related factors are considered to be strong forces that push developing-country TNCs out of their home countries or pull them into host countries. Factors like overdependence on the home market, rising costs of production in the home economy, especially labour costs, and competitive pressures from low-cost producers push developing countries firms to expand overseas. The host country drivers are essentially market-pull factors, especially large and growing markets in the host countries.

The most important factor influencing the investment decision by the TNCs is the government policies of both host country and home country. Regulations and inducements encouraging inward FDI and multilateral or bilateral trade, and investment treaties facilitating FDI can act as pull factors for TNCs. Liberalization policies in host economies are creating many investment opportunities through privatizations of State-owned assets and enterprises. Investment in infrastructure, strong currencies, established property rights and minimal exchange-rate regulations are important pull factors. From home country side, provision of appropriate legal and institutional environment, besides supportive measures like information provision, financial and fiscal incentives, can create conducive environment for investing overseas. Other macroeconomic and political factors deemed important as push or pull factors by developing country TNCs include macroeconomic and political stability. This apart, the rapid growth of many large developing countries, such as, China and India, necessitating key resources and inputs for their economic expansion and the behavioural change of the TNCs being parts of global production network are also driving the TNCs of developing countries investing abroad.

The strategies of the TNCs, by and large, are market-seeking, efficiency-seeking, resource-seeking (broadly asset exploiting strategies) and created-asset seeking (asset-augmenting strategy). The most important potential gain for home countries from outward FDI is the improved competitiveness and efficiency. Outward FDI also has positive effects on domestic investment, trade, employment and potential sources of capital, technology and management skills to tap. While outward FDI entails the transfer of capital from home to host country, it can also generate inflows in the form of repatriated profits, royalties and licensing fees, and payments by the host country for increased imports from the home country.

Source : UNCTAD, World Investment Reports (2006 and 2007).

Table 2: India's Outward FDI: Approved Proposals

(US $ million)

Period (April-March)	Number of Approved Proposals	Amount of Approved Proposals			
		Equity	Loan	Guarantee	Total
2003-04	1214	822.40	229.90	413.83	1466.13
2004-05	1281	2010.03	384.39	409.91	2804.33
2005-06	1395	1887.78	629.74	337.32	2854.84
2006-07	1817	11244.96	1475.28	2339.76	15060.00
April - December, 2007	1595	11324.99	1331.77	5780.50	18437.26
April - December, 2006	1268	4594.09	1270.70	2079.75	7944.54

Reserve Bank of India (RBI) for setting up a JV/WOS abroad. Proposals not covered by the conditions under the automatic route require the prior clearance of the RBI and are coming under approval route.

Outward FDI are funded through sources such as, drawal of foreign exchange in India, capitalization of exports, funds raised through external commercial borrowings, foreign currency convertible bonds and ADRs/GDRs and also through leveraged buyouts by way of setting up of special purpose vehicles (SPVs)[3]. Thus, financing of outward FDI by Indian entities are broadly in the form of equity, loan and guarantee[4].

II.2 Magnitude

II.2.a Past Trends

India's overseas investment which began initially with the acquisition of foreign companies in the information technology and related services sector has, of late, spread to wider areas like manufacturing, financial and non-financial services. Over the years, the number of proposals approved for outward FDI from India in JVs and WOSs increased from 1,214 in 2003-04 to 1,817 in 2006-07. The amount of approved proposals increased from US $ 1,466 million in 2003-04 to US $ 15,060 million in 2006-07 (Table 2). The rise in both the number and the amount of approved proposals is reflective of large overseas acquisition deals by Indian corporate facilitated by progressive liberalization of the external sector policies.

The amount of outward FDI from India on account of JVs/WOSs increased from US $ 1,495 million in 2003-04 to US $ 12,880 million in 2006-07 (Table 3). Equity accounted for 90 per cent of the total investments and the remaining 10 per cent by way of loans in 2006-07.

II.2.b Recent Trends: 2007-08

During 2007-08 (April-December), 1,595 proposals were approved for

[3] The SPVs set up for funding overseas investment raise funds from international markets to finance the buyout and such transactions are not captured in the overseas investment statements.

[4] This review covers outward FDI (overseas investment) in JVs and WOSs by Indian public and private limited companies, and registered partnership firms and remittances in respect of production sharing agreements for oil exploration. It does not include outward FDI by individuals and banks. The equity data presented in this review, therefore, do not include equity of individuals and banks, while BoP statistics, in addition, include the equity of banks (unincorporated banks' branches operating abroad).

Table 3: India's Outward FDI: Actual Outflows

(US $ million)

Period (April-March)	Equity*	Loan	Guarantee Invoked	Total
2003-04	1234.25	260.93	-	1495.18
2004-05	1365.59	402.79	-	1768.38
2005-06	3858.46	1008.10	3.00	4869.56
2006-07	11599.01	1281.07	-	12880.08
2007-08				
April-June	4268.89	425.93		4694.82
July-September	1552.00	285.37		1837.37
October-December	3275.61	306.42		3582.03
April-December, 2007-08	9096.50	1017.72	-	10114.22
April-December, 2006-07	8097.27	876.07	-	8973.34

* : The equity data do not include equity of individuals and banks.

Note : Figures are provisional.

investments abroad in JVs and WOSs, which were higher by 25.8 per cent than approval during the corresponding period of the previous year. The amount of proposals approved during April-December, 2007 stood at US $ 18,437 million, higher by 132 per cent than a year ago (Table 2). Equity, loans and guarantees accounted for 61.4 per cent, 7.2 per cent and 31.4 per cent of total proposals approved, respectively. The break-up of outward FDI proposals approved during 2007-08 (April-December) reveals that 99.6 per cent of the proposals involving 97.7 per cent of the total amount were approved by the authorized dealers and the rest were approved by the RBI (Table 4).

Actual outward FDI during 2007-08 (April-December) stood at US $ 10,114 million, which was 13 per cent higher than the corresponding period during previous year (Table 3). Of the total investment, 89.9 per cent were in the form of equity and loans accounted for remaining 10.1 per cent.

II.3 Inflows from Outward FDI

Inflows from India's outward FDI are in the form of dividend, royalty, licence fee, brand fee, technical know-how fee, repayment of loan, etc. During 2006-07, total inflows from outward FDI amounted to US $ 295 million. During 2007-08 (April-December) inflows from India's outward FDI amounted to US $ 337 million, which were higher by 14.5 per cent than the inflows during the

Table 4: India's Outward FDI: Proposals during April - December 2007

(US $ million)

Route	Number of Proposals Approved	Amount			
		Equity	Loan	Guarantee	Total
I. RBI Approved	7	432.41	-	-	432.41
II. AD Approved	1588	10892.58	1331.77	5780.50	18004.85
Total (I + II)	1595	11324.99	1331.77	5780.50	18437.26

Table 5: Inflows from India's Outward FDI

(US million)

Period	Dividend	Others@	Total
2006-07	21.96	272.75	294.71
2007-08 (April-December)	29.41	307.68	337.09
2006-07 (April-December)	20.15	274.33	294.48

@ : Others include dividend, royalty, licence fee, brand fee, technical know-how fee, repayment of loan, etc.

Note : Figures are provisional.

corresponding period a year ago (US $ 294 million) [Table 5].

III. Sectoral Pattern and Direction of India's Outward FDI

III.1 Sectoral Pattern

In the total outward FDI proposals approved during April-December, 2007, about 96 per cent were of large investments (US $ 5 million and above). Sector-wise, 43 per cent were in manufacturing followed by non financial services (10 per cent) and trading (4 per cent) [Chart 1 and Table 6].

III.2 Direction

Direction of investment indicates that during April-December, 2007, 37 per cent of approvals for outward FDI (US $ 5 million and above) were towards Singapore, followed by Netherlands (26 per cent) and British Vergin Islands (8 per cent) [Chart 2].

IV. Conclusion

Global foreign direct investment has been increasing over the years, with developing economies emerging as important sources of outward FDI. As an outcome of libelralisation policies, India's outward foreign direct investment witnessed an unprecedented rise in recent period. The position during current financial year so far (April-December, 2007) shows significant growth in the number of proposals approved (25.8 per cent) and the amount of approved proposals (132.0 per cent) with manufacturing sector accounting for about 43 per cent of the proposed investments. Actual outward FDI during 2007-08 (April-December) was 12 per cent

Table 6: Sector-wise Distribution of India's Outward FDI during April-December, 2007

(US $ million)

Sector	April	May	June	July	Aug.	Sept.	Octo.	Nov.	Dec.	Total Approvals
Trading	54.22	28.25	46.74	40.57	-	24.17	114.98	311.55	-	620.48
Manufacturing	149.10	549.00	4122.00	495.40	219.52	1339.11	256.93	345.09	157.78	7634.00
Non Financial Services	66.79	234.20	61.20	23.63	364.91	420.61	139.50	248.07	118.78	1677.71
Others	52.47	396.90	883.30	172.60	67.20	77.67	4554.26	596.99	879.84	7681.09
Financial	-	-	-	-	-	-	7.00	25.46	-	32.46
Total	322.60	1208.00	5113.00	732.20	651.63	1861.56	5072.67	1527.16	1156.40	17645.74

Note : Data pertain to large investments of US $ 5 million and above.

Chart 1: Distribution of India's Outward FDI during 2007-08 (April-December)

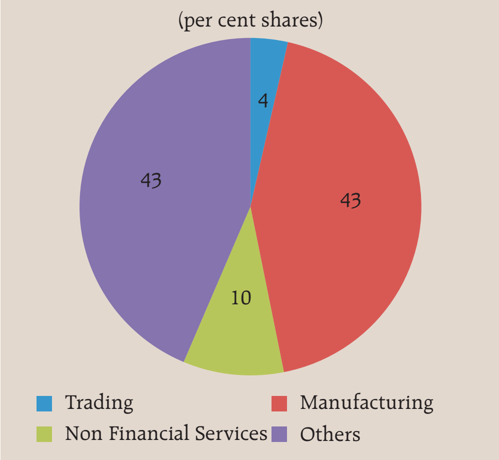
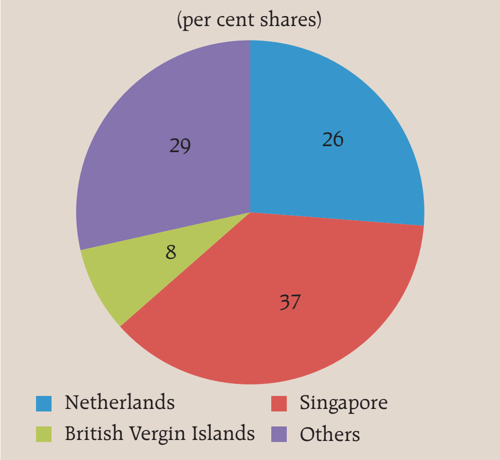


Chart 2: Direction of India's Outward FDI during 2007-08 (April-December)



higher than the corresponding period of the previous year with equity accounting for almost 90 per cent of the total outward FDI. Singapore, Netherlands and British Vergin Islands were the main destinations for India's outward FDI.