ISSN 2278 – 859X

Asian Academic Research Journal of Social Sciences & Humanities

Volume 1 Issue 9 March 2013

Journal By:-
Asian Academic Research Associates

ISSN 2278 – 859X (Online)
Asian Academic Research Journal of Social Sciences & Humanities
&
ISSN 2319-2801 (Online)
Asian Academic Research Journal of Multidisciplinary

Editorial Board

DR. YOUNOS VAKIL ALROAIA
ASSISTANT PROFESSOR
DEPARTMENT OF INDUSTRIAL MANAGEMENT,
FACULTY OF BUSINESS MANAGEMENT,
CHAIRMAN, SEMNAN BRANCH,
ISLAMIC AZAD UNIVERSITY
SEMNAN , IRAN

DR. R. B. SHARMA
ASSISTANT PROFESSOR (ACCOUNTING)
DEPARTMENT OF ACCOUNTING
COLLEGE OF BUSINESS ADMINISTRATION
SALMAN BIN ABDULAZIZ UNIVERSITY
AL KHARJ, KINGDOM OF SAUDI ARABIA

DR. ANUKRATI SHARMA
VICE-PRINCIPAL & ASSOCIATE PROFESSOR
BIFF & BRIGHT COLLEGE OF TECHNICAL EDUCATION, JAIPUR
(RAJ.) (AFFILIATED TO UNIVERSITY OF RAJASTHAN)

DR. SHIVAKUMAR DEENE
DEPT. OF COMMERCE AND MANAGEMENT,
GOVT. FIRST GRADE COLLEGE, CHITGUPPA TQ. HUMANABAD,
DIST. BIDAR, KARNATAKA (INDIA)

DR. N.PANCHANATHAM
PROFESSOR AND HEAD DEPARTMENT OF BUSINESS
ADMINISTRATION
(CORPORATE TRAINER-HRD)
ANNAMALAI UNIVERSITY
ANNAMALAINAGAR

DR. RAMESH CHANDRA DAS
DEPARTMENT OF ECONOMICS
KATWA COLLEGE, KATWA, BURDWAN,
WEST BENGAL

MR.NAVANEETHAKRISHAN KENGATHARAN
SENIOR LECTURER,
DEPT. OF HUMAN RESOURCE MANAGEMENT,
UNIVERSITY OF JAFFNA, SRI LANKA

KALBANDE DATTATRAYA TRAYAMBAKRAO
CENTRAL UNIVERSITY LIBRARY,
MAHATMA PHULE KRISHI VIDYAPEETH.
RAHURI.DIST.AHAMADNAGAR(M.S).(INDIA)

R.CHANDRAMOHAN
MANAGING DIRECTOR
ORCUS SYSTEM PTE LTD
SINGAPORE

DR. (MRS.) INDU SWAMI
ASSISTANT PROFESSOR
POST GRADUATE DEPARTMENT OF ENGLISH,
ASSAM UNIVERSITY:: DIPHU CAMPUS,
(A CENTRAL UNIVERSITY)
DIPHU-782 460 KARBI ANGLONG, ASSAM, INDIA

DR.S.ELIZABETH AMUDHINI STPEHEN
ASSOCIATE PROFESSOR
DEPARTMENT OF MATHEMATICS
KARUNYA UNIVERSITY
COIMBATORE

DR, DIGANTA BISWAS
LECTURER IN LAW
DEPARTMENT OF LAW
UNIVERSITY OF NORTH BENGAL

DR.V.MAHALAKSHMI
DEAN, PANIMALAR ENGINEERING COLLEGE
POONAMALLEE, CHENNAI – 600123

DR. BALASUNDARAM NIMALATHASAN
DEPARTMENT OF ACCOUNTING,
FACULTY OF MANAGEMENT STUDIES & COMMERCE,
UNIVERSITY OF JAFFNA,
JAFFNA, SRI LANKA

DR.SHOBANA NELASCO,
ASSOCIATE PROFESSOR
FELLOW OF INDIAN COUNCIL OF SOCIAL SCIENCE RESEARCH
(ON DEPUTATION)
DEPT. OF ECONOMICS,
BHARATHIDASAN UNIVERSITY, TRICHIRAPPALLI

DR.ARABI.U
ASSOCIATE PROFESSOR AND CHAIRMAN
DEPARTMENT OF STUDIES AND RESEARCH IN ECONOMICS,
MANGALORE UNIVERSITY, MANAGALAGANGOTHRI,
DAKSHINA KANNADA DISTRICT
KARNATAKA STATE, INDIA-574199

DR.T.CHANDRASEKARAYYA,
ASSISTANT PROFESSOR,
DEPT OF POPULATION STUDIES & SOCIAL WORK,
S.V.UNIVERSITY,
TIRUPATI, A.P-517502.

DR. SWAPNALI BORAH
ASSOCIATE PROFESSOR & HEAD
DEPT.OF FAMILY RESOURCE MANAGEMENT
CENTRAL AGRICULTURAL UNIVERSITY
SANGSANGGRE, TURA
MEGHALAYA – 794005

DR ARUN KUMAR BEHERA, ASST. PROF.
POST DOCTORAL FELLOWSHIP
EINSTEIN INTL UNIV-USA
DEPT. OF ENGLISH,
SRI SATHYA SAI INSTITUTE OF HIGHER LEARNING,
BRINDAVAN CAMPUS,KADUGODI POST, BANGALORE

DR. MOHAMMED ALI HUSSAIN
PRINCIPAL & PROFESSOR,
DEPT. OF COMPUTER SCIENCE & ENGINEERING.
SRI SAI MADHAVI INSTITUTE OF SCIENCE & TECHNOLOGY,
MALLAMPUDI, RAJAHMUNDRY, A.P, INDIA.

DR. TAMMA SURYANARAYANA SASTRY
HEAD OF THE DEPARTMENT OF LAW,
UNIVERSITY OF PUNE

DR. S.RAJA,
RESEARCH ASSOCIATE
MADRAS RESEARCH CENTER OF CMFRI
INDIAN COUNCIL OF AGRICULTURAL RESEARCH
CHENNAI

DR. B.MURALI MANOHAR
PROFESSOR –VIT BUSINESS SCHOOL
VELLORE INSTITUTE OF TECHNOLOGY, VELLORE

DR. M. RAMESH KUMAR MIRYALA
PROFESSOR
SWAMI RAMANANDA TIRTHA INSTITUTE OF SCIENCE &
TECHNOLOGY, NALGONDA

DR.V.MOHANASUNDARAM
PROFESSOR AND HEAD, DEPARTMENT OF MANAGEMENT
STUDIES,
VIVEKANANDHA INSTITUTE OF ENGINEERING AND
TECHNOLOGY FOR WOMEN, NAMAKKAL DT

DR. M. RAMESH KUMAR MIRYALA
PROFESSOR
SWAMI RAMANANDA TIRTHA INSTITUTE OF SCIENCE &
TECHNOLOGY, NALGONDA

DR.MOHAMMAD REZA
ASSOCIATE PROFESSOR,
DEPARTMENT OF SOCIAL WORK,
AZAD UNIVERSITY OF KHOMEINISHAHR,
ISLAMIC AZAD UNIVERSITY, KHOMEINISHAHR
KHOMEINISHAHR, ESFAHAN, IRAN.

DR. D. GURUSWAMY
ASSISTANT PROFESSOR, DEPARTMENT OF ACCOUNTING AND
FINANCE, COLLEGE OF BUSINESS AND ECONOMICS MEKELLE
UNIVERSITY, MEKELLE, ETHIOPIA, EAST AFRICA.

DR.SHISHIRKUMAR H. MANDALIA
I/C UNIVERSITY LIBRARIAN
DEPARTMENT: BHAIKAKA LIBRARY,
SARDAR PATEL UNIVERSITY,
VALLABH VIDYANAGAR, ANAND-388120(GUJARAT)

Asian Academic Research Journal of Social Sciences and Humanities
Year 2013, Volume-1, Issue-9 (March 2013)
Online ISSN : 2278 – 859X

INDEX PAGE

SNO	ARTICLE TITLE	PAGE NO
1	DETERMINANTS OF BOTTLE FEEDING PRACTICES IN SOLIGA TRIBE OF MYSORE DISTRICT, KARNATAKA, INDIA **DR RENUKA M; DR K JAGADISH KUMAR; DR PRAVEEN KULKARNI; DR KHYRUNISSA BEGUM; DR M R GANGADHAR**	1 – 11
2	HUMAN RIGHTS AND HUMAN VALUES IN INDIAN PHILOSOPHY **DR. K. VENKATESAN**	12 – 16
3	PROBLEMS AND PROSPECTS OF SSI'S - A STUDY IN DAVANAGERE CITY **H. VENKATESHA; DR. S. N. YOGISH**	17 – 39
4.	KHAP PANCHAYATS: CONTINUITY, CONFRONTATION AND CONTRADICTION **NAVNEET KAUR**	40 – 45
5.	HEALTH DETERMINANTS OF BAIGA: A PARTICULARLY VULNERABLE TRIBAL GROUP IN CENTRAL INDIA **DR. FARHAD MOLLICK; SHAILENDRA KUMAR VERMA**	46 – 55
6.	DYNAMICS OF CROPPING PATTERN IN GUJARAT STATE: A MARKOV CHAIN APPROACH **DR.N.J.ARDESHNA; DR.R.L.SHIYNAI**	56 – 66
7.	TEACHING AND LEARNING CHALLENGES & STRATEGIES TOPIC- STRATEGIES & CHALLENGES OF E-LEARNING **SAMRIT MONA**	67 – 74
8.	MODERATING EFFECT OF ENVIRONMENTAL MANAGEMENT ACCOUNTING (EMA) ON QUALITY AND COMPETITIVE ADVANTAGE **SAYEDEH PARASTOO SAEIDI; DR. SAUDAH SOFIAN; PARVANEH SAEIDI; SAYYEDEH PARISA SAEIDI**	75 – 85
9.	EMERGING ISSUES AND RECENT TRENDS IN INDIAN FDI **DR. P. SIVA KUMAR**	86 – 103
10.	DOMESTIC WATER DEMAND FORECASTING UNDER DIFFERENT SOCIO-ECONOMIC SCENARIOS FOR A CENTRAL HIMALAYAN WATERSHED, INDIA **KIREET KUMAR; SNEH JOSHI; HIMANSHI SHARMA; TANUJA PANDEY**	104 – 120
11.	WOMEN AND HUMAN RIGHTS **DR. T.M. RAJENDRA PRASAD**	121 – 127
12.	STATUS OF WEFARE PROGRAMMES IN INDIA **DR. C VENKATESWARLU; B VIJAJA LAKSHMI; DR. MORUSU SIVA SANKAR**	128 – 137
13.	IMPACT OF POVERTY **DR. C VENKATESWARLU; B VIJAJA LAKSHMI; DR. MORUSU SIVA SANKAR**	138 – 146
14.	VARIATION STUDIES IN TREE MORPHOLOGICAL PARAMETERS IN ANOGEISSUS LATIFOLIA WALL IN HIMACHAL PRADESH **H.P SANKHYAN; R. BAWA; TANVI GUPTA; N.B SINGH**	147 – 157
15.	VALUE CRISIS IN INDIAN EDUCATION **DR.K.JAYARAMAIAH; DR.G.THULASIRAM**	158 – 165
16.	CHANGING POPULATION STRUCTURE OF GUWAHATI CITY INDIA A GEOGRAPHICAL ANALYSIS **ZONA BHUYAN**	166 – 176
17.	ANTECEDENTS OF CUSTOMER SATISFACTION-A STUDY ON THE INDIAN DOMESTIC LOW COST AIR CARRIERS **RICHARD REMEDIOS**	177 – 195
18.	STUDY ON EDUCATION OF CHILD LABOURERS **DR. S. S. PATIL; MS. VANI. E.J**	196 – 201

A Peer Reviewed International Journal of Asian Academic Research Associates

AARJSH

ASIAN ACADEMIC RESEARCH JOURNAL OF SOCIAL SCIENCE & HUMANITIES

EMERGING ISSUES AND RECENT TRENDS IN INDIAN FDI

DR. P. SIVA KUMAR*

*Post Doctoral Fellow,
Dept. of Commerce,
S.V. University, Tirupati-517502, A.P.

ABSTRACT

Of late, emerging market economies (EMEs) are immensely increasing as a source of foreign investment for rest of the world. It is not only a sign of their increasing participation in the global economy but also their increasing competence. Now-a-days growing impetus for change is coming from developing countries and economies in transition, where a number of private as well as state-owned enterprises are increasingly undertaking outward expansion through foreign direct investments (FDI). Companies are expanding their business operations by investing overseas with a view to acquiring a regional and global reach.

Introduction

Of late, emerging market economies (EMEs) are immensely increasing as a source of foreign investment for rest of the world. It is not only a sign of their increasing participation in the global economy but also their increasing competence. Now-a-days growing impetus for change is coming from developing countries and economies in transition, where a number of private as well as state-owned enterprises are increasingly undertaking outward expansion through foreign direct investments (FDI). Companies are expanding their business operations by investing overseas with a view to acquiring a regional and global reach.

A. Factors providing momentum to outward foreign investments

According to UNCTAD's World Investment Report 2011, the stock of outward FDI from developing economies reached to US$ 3.1 trillion in 2010 (15.3% of global outward FDI stock), up from US$ 857 billion (10.8% of global outward FDI stock) 10 years ago. On flow basis, outward FDI from developing economies has grown from US$ 122 billion in 2005 to US$ 328 billion in 2010 accounting for around a quarter of total outward FDI witnessed at global level. FDI is a natural extension of globalisation process that often begins with exports. In the process, countries try to access markets or resources and gradually reduce the cost of production and transaction by expanding overseas manufacturing operations in countries where certain ownership-specific advantages can help them to compete globally. Adoption of such strategies helps them to catch up with competing economies. A significant uptrend in outward FDI has also been observed in the case of India in recent years. Since globalisation is a two-way process, integration of the Indian economy with the rest of the world is evident not only in terms of higher level of FDI inflows but also in terms of increasing level of FDI outflows.

The overseas investment of domestic corporate sector through FDI has provided them better access to global networks and markets, transfer of technology and skills and also enables them to share research and development efforts and outcomes. It can also be seen as a corporate strategy to promote the brand image and utilisation of raw materials available in the host country. In the Indian context, overseas investments have been primarily driven by either resource seeking or market seeking or technology seeking motives[1].

Change in policy environment across the economies has greatly influenced the outward investment pattern in the global economy. Nonetheless, recognising the concerns of capital outflows, governments in different countries, particularly emerging and developing economies, have been relatively more circumspect on undertaking policy liberalisation of outward investment. Therefore, it is important to highlight how the Indian

policy in this regard has evolved over time. In the Indian context, overseas investments in joint ventures (JV) and wholly owned subsidiaries (WOS) have been recognised as important channels for promoting global business by the Indian entrepreneurs. The broad approach has been to facilitate outward foreign direct investment through joint ventures and wholly owned subsidiaries and provision of financial support to promote exports including project exports from India. With a steady rise in capital inflows, particularly in the second half of 2000s, the overall foreign exchange reserve position provided comfort to progressive relaxation of the capital controls and simplification of the procedures for outbound investments from India. Three distinct overlapping phases as under can be discerned in the evolution of the Indian outward FDI policies[2].

Phase I (1992 to 1995): Period of Liberalization of Indian economy

Guidelines on outward FDI were in place before the process of liberalisation and globalisation of Indian economy in 1991-92. Policy changes since 1992 were undertaken keeping in view the changing needs of a growing economy. Understandably, the rules were quite restrictive and subject to conditions of no cash remittance and mandatory repatriation of dividend from the profits from the overseas projects. In 1992, the 'automatic route' for overseas investments was introduced and cash remittances were allowed for the first time.

Phase II (1995 to 2000): Creation of a Fast Track Route

In 1995, a comprehensive policy framework was laid down and the work relating to approvals for overseas investment was transferred from Ministry of Commerce to the Reserve Bank of India to provide a single window clearance mechanism. The policy framework articulated a cohesive approach that was flexible enough to respond to likely future trends. It reflected the need for transparency, recognition of global developments, capturing of Indian realities and learning of lessons from the past. The basic objectives of the policy were determined by commercial interests but were also consistent with the macroeconomic and balance of payment compulsions of the country, particularly in terms of the magnitude of the capital flows. In terms of the overseas investment policy, a fast track route was adopted where the limits were raised from US$ 2 million to US$ 4 million and linked to average export earnings of the preceding three years. Cash remittance continued to be restricted to US$ 0.5 million. Beyond US$ 4 million, approvals were considered under the 'Normal Route' approved by a Special Committee comprising the senior representatives of the Reserve Bank of India (Chairman) and the Ministries of

Finance, External Affairs and Commerce (members). Investment proposals in excess of US$ 15 million were considered by the Ministry of Finance with the recommendations of the Special Committee and were generally approved if the required resources were raised through the global depository route (GDR) route. In March 1997, exchange earners, other than exporters, were also brought under the fast track route. Indian promoters were allowed to set up second and subsequent generation companies, provided the first generation company was set up under the Fast Track Route. A series of measures to encourage the software industry in India to expand capacity, reduce costs, improve quality and also invest abroad were put in place.

Phase III (2000 to till date): Liberalized framework under FEMA

In 2002, the per annum upper limit for automatic approval was raised to US$100 million. Such upper limit was, however, discontinued when the automatic route for outward FDI was further liberalised in March 2003 to enable Indian parties to invest to the extent of 100 per cent of their net worth. Since then the limit of outward FDI has been gradually increased to 400 per cent. The ceiling of 400 per cent of net worth, however, is not applicable for

a) investments made out of balances held in the Exchange Earners' Foreign Currency (EEFC) account of the Indian party or out of funds raised abroad through ADRs/GDRs.
b) Indian companies engaged in the energy and natural resources sectors, such as, oil, gas, coal and mineral ores, though they would require prior approval of the Reserve Bank of India.

Overseas investments in unincorporated entities in oil sector (e.g. by way of taking up participation interest) by Navaratna Public Sector Undertakings were allowed under the automatic route and subsequently the facility was extended to other Indian entities as well. Further, in 2004, the External Commercial Borrowing policy was modified and funding of JVs/WOS abroad was included as a permissible end-use of the funds raised. At present, any Indian party can make overseas direct investment in any bona-fide activity except certain real estate activities {*i.e.*, buying and selling of real estate or trading in Transferable Development Rights (TDRs)} and banking business (which are considered by an inter-Ministerial group) that are specifically prohibited. For undertaking activities in the financial services sector, certain conditions as specified by the Reserve Bank, however, need to be adhered to. Access to international financial markets was also progressively liberalised for

the Indian corporate sector and they were allowed to use special purpose vehicles (SPVs) in international capital markets to finance their cross-border acquisitions. The impact of policy liberalisation is now reflected in cross-border acquisitions by Indian corporate growing at an accelerated pace[3].

C. Trend analysis of outward FDI

Even though policy changes undertaken in respect of overseas investment have facilitated the growing cross-border acquisitions by the Indian corporate sector, other structural reforms undertaken since 1992, such as, industrial deregulation, trade liberalisation and relaxation of regulations governing inward FDI, led to major restructuring in the Indian industry. In fact, many of the leading companies owe their competitiveness to the reform process. Greater exposure to internal as well external competition proved to be instrumental in building confidence among the Indian companies to compete with foreign competitors in world market. Apart from liberalised policy environment for overseas investment, India has gained ground as an important investor on the back of (a) rapid economic growth, (b) easy access to financial resources and (c) strong motivations to acquire resources and strategic assets abroad. One should not assume that overseas investment by Indian companies is a phenomenon of 1990s. In fact, Indian firms began to invest overseas in the 1960s, but India's restrictive policies for overseas investment limited them to small, minority joint ventures in developing economies. First major overseas Indian venture was a textile mill set up in Ethiopia in 1959 by the Birla Group of companies (Authkorala, 2009)[4].

1. Trend of outward investments during the last decade

A trend analysis shows that the level of outward FDI from India has increased manifold since 1999-2000. The level of net outward FDI flows (on BoP basis), however, recorded a sharp uptrend at US$ 74.3 billion during the second half of 2000s (2005-06 to 2009-10) as compared to US$ 8.2 billion in the first half of 2000s (2000-01 to 2004-05). Even though trend in India's outward FDI was moderately affected during crisis year of 2009-10, a sharp rebound was seen in 2010-11 (Table 1).

Table 1
Year–wise position of actual outflows in respect of outward FDI & guarantees issued

(in million US Dollar)

Period	Equity	Loan	Guarantee Invoked	Total	Guarantee Issued
2000-2001	602.12	70.58	4.97	677.67	112.55
2001-2002	878.83	120.82	0.42	1000.07	155.86
2002-2003	1746.28	102.10	0.00	1848.38	139.63
2003-2004	1250.01	316.57	0.00	1566.58	440.53
2004-2005	1481.97	513.19	0.00	1995.16	315.96
2005-2006	6657.82	1195.33	3.34	7856.49	546.78
2006-2007	12062.92	1246.98	0.00	13309.90	2260.96
2007-2008	15431.51	3074.97	0.00	18506.48	6553.47
2008-2009	12477.14	6101.56	0.00	18578.70	3322.45
2009-2010	9392.98	4296.91	24.18	13714.07	7603.04
2010-2011	9234.58	7556.30	52.49	16843.37	27059.02
2011-12*	4031.45	4830.01	0.00	8861.46	14993.80
Total	75247.61	29425.32	85.40	104758.30	63504.05

* April 2011 to February 22, 2012

In recent years, outward FDI continued to be mainly financed through equity and loans. Although guarantees issued have been raising, their invocation has been negligible during 2009-10 and 2010-11. It has been observed that the number of outward FDI proposals under the Automatic Route 2000 has also been on the raise (Table 2) indicating the growing appetite of the Indian corporates to establish their foot prints abroad and the liberal regulatory regime[5].

Table 2
Number of proposals under Approval and Automatic Route

Period	Approval Route	Automatic Route	Total
2008-09	6	974	980
2009-10	4	690	694
2010-11	19	1187	1206
2011-12*	10	1123	1133

* April 2011 to February 22, 2012

2. Position of India in the global context

Outward FDI from India has mainly been by way of equities and loans (Table 1). According to UNCTAD's World Investment Report 2011, based on the magnitude of FDI outflows, India was placed 21st in the world. In terms of value of net purchases5 (i.e., cross border acquisition deals) by Indian companies in 2010, India was placed fifth in the World after the US, Canada, Japan and China.

3. Investment trends of Indian transnational companies

Importantly, scale of overseas investment by domestic companies has also expanded as India was placed second in 2010 only after China in terms of average size of net purchase deals (US$190 million in India as compared to US$ 197 million in China). Similarly, India also figures among the top five emerging and developing economies whose state-owned enterprises are increasingly becoming transnational corporations. It is not surprising as in recent years, India's Public Sector Units (PSUs), *viz.* NTPC, GAIL, ONGC and NALCO have undertaken significant overseas green-field investments.

4. Sectoral investment trends

Sectoral pattern of outward FDI during 2006-07 to 2010-11 shows that it has been mainly invested in services and manufacturing sector. In 2010-11, within manufacturing, major sub-sectors which attracted outward FDI from India included agriculture machineries and equipments, basic organic chemicals, drugs, medicines & allied products, refined petroleum products, indigenous sugar, *etc*. Similarly, within services sector, a majority of outward FDI had gone into business services, data processing, financial services, architectural and engineering, engine architectural and other technical consultancy activities (Table 3).

Table 3
Major sector-wise overseas investments by Indian companies

(amounts in billion US Dollar)

Period	2008-09	2009-10	2010-11	2011-12*	Total
Manufacturing	10.18	5.35	5.04	2.74	23.31
Financial Insurance, Real Estate Business & Business Services	3.55	4.41	6.53	2.53	17.03
Wholesale & Retail Trade, Restaurants & Hotels	1.17	1.13	1.89	1.00	5.19

Agriculture & allied activities	2.38	0.95	1.21	0.41	4.94
Transport, Communication & Storage Services	0.31	0.38	0.82	1.34	2.85
Construction	0.35	0.36	0.38	0.37	1.46
Community, Social & Personal Services	0.39	0.18	0.70	0.18	1.45
Electricity, Gas & Water	0.14	0.84	0.10	0.04	1.19
Miscellaneous	0.12	0.11	0.18	0.10	0.51
Total	18.58	13.71	16.84	8.73	57.86

* April 2011 to February 22, 2012

Since late 1990s, Indian outward FDI began to be in more high-tech and trade supporting sectors. Many Indian IT firms like Tata Consultancy Services, Infosys, WIPRO and Satyam acquired global contracts and established overseas offices in developed economies to be close to their key clients. In addition, other sectors which have attracted significant share of outward FDI from India in the recent years included extraction of crude petroleum, oil and gas field services and services incidental to mining.

5. Investments trends for acquisition of natural and strategic resources

Sectoral pattern suggests that greater outward investment by the Indian corporate sector seems to have been motivated by long-term strategic considerations rather than by short-term profitability. For instance, ONGC Videsh Ltd., a fully-owned subsidiary of ONGC, presently has overseas assets in 33 projects in 14 countries of Middle East, Africa, CIS & Far East and Latin America. Oil India Limited has presence in eight countries mainly in terms of exploration blocks in Libya, Gabon, Iran, Nigeria and Sudan. Similarly, Coal India Limited has formed a subsidiary Coal Videsh Ltd. to acquire coal assets abroad and also set up a joint venture company International Coal Ventures Ltd with other companies to acquire metallurgical and thermal coal assets outside India. Overseas investment by Indian companies in extractive industries assumes importance as it is required to support rapid economic growth, industrialisation and urbanisation in the domestic sector and guarantee a long-term, stable supply of natural resources to the country against a background of rising commodity prices. Such trend has also been observed in the case of other major emerging market economies, especially other members of BRIC group. In fact, number of companies investing abroad from the BRIC group in the FT 500 list has

increased from 20 in 2006 to 62 in 2008 (The Economist, 2011), reflecting their growing overseas business operations. Common feature is that domestic companies in BRIC economies have been seeking to enhance their access to supplies of raw materials and moving into new segments of strategic commodities and move up the value chain. Nonetheless, oil and gas and other natural resource-based industries are relatively less prominent in Indian outward FDI compared to that by Brazil and China. Other major overseas acquisitions in recent years by Tata Steel, Hindalco, Bharti Airtel, etc have also been a part of their inorganic growth strategies. In these cases, acquisitions were specifically undertaken to attain global size and status, and to build new competitive advantages by combining the best international technology with low-cost Indian labour (Satyanand and Raghavendran, 2010).[6]

6. Destinational investment trends

Direction of outward FDI shows that it is getting more diversified across countries. Diverting from the past trend (i.e. pre-1990s) when Indian companies were investing in countries where there was little technological competition, the more recent trend shows that Indian overseas investment is increasingly flowing to developed economies (Table 4), partly reflecting growing confidence of the Indian corporates and availability of overseas assets at competitive rates.

Table 4
Top ten country wise overseas investments by Indian companies

(amount in billions US Dollar)

Country	2008-09	2009-10	2010-11	2011-12*	Total
Singapore	4.06	4.20	3.99	1.86	14.11
Mauritius	2.08	2.15	5.08	2.27	11.57
Netherlands	2.79	1.53	1.52	0.70	6.54
United States of America	1.02	0.87	1.21	0.87	3.97
United Arab Emirates	0.63	0.64	0.86	0.38	2.51
British Virgin Islands	0.00	0.75	0.28	0.52	1.55
United Kingdom	0.35	0.34	0.40	0.44	1.53
Caynan Islands	0.00	0.04	0.44	0.14	0.62
Hong Kong	0.00	0.00	0.16	0.31	0.46
Switzerland	0.00	0.00	0.25	0.16	0.41
Other countries	7.65	3.19	2.65	1.23	14.71
Total		18.58	13.71	16.84	8.86

*April 2011 to February 28, 2012

7. Trend of using SPV or M&A route for investments abroad

Indian companies going for overseas investments have largely used either their overseas locally-incorporated subsidiaries or have set up holding companies and/or special purpose vehicles (SPVs) in offshore financial centres or other regional financial centres. In 2005, Indian companies were allowed to float SPVs in international capital markets to finance acquisitions abroad facilitating the use of leveraged buy-outs. Since then, SPVs set up in off-shore financial centres, such as, Mauritius, Singapore and the Netherlands, have been mainly used as conduits to mobilise funds and invest in third countries mainly keeping in view the business and legal consideration, taxation advantages and easier access to financial resources in the countries[7].

While overseas investment in developed economies is going mainly through M&As, mode of entry into developing economies is observed to be mainly through green-field investments. One of the reasons for Indian companies to adopt M&As route for foreign investment in developed countries is that markets in these economies tend to be mature and saturated and, therefore, companies prefer to gain market share through acquisitions rather than green-filed investments. A recent article published in 'The Economist' (September 10, 2011) points out that big acquisitions by companies like Tata were a way of reaching the required scale quickly. Today, Tata Group companies are reportedly the biggest manufacturer and employment provider in the UK.

D. Funding pattern of outward FDI

As far as policy regarding the funding of overseas investments is concerned, it is allowed in a number of ways. These sources mainly include (i) purchase of foreign exchange on-shore from an authorised dealer in India, (ii) capitalisation of foreign currency proceeds to be received from the foreign entity on account of exports, fees, royalties or any other dues from the foreign entity for supply of technical know-how, consultancy, managerial and other services, (iii) swapping of shares of Indian entity with those of overseas entity, (iv) use of balances held in the Exchange Earners' Foreign Currency (EEFC) accounts of Indian entity maintained with an authorised dealer, (v) foreign currency proceeds through ECBs/FCCBs, and (vi) exchange of ADRs/GDRs issued in accordance with the scheme for issue of Foreign Currency Convertible Bonds. A recent study by Virtus Global Partners (April 2011) based on US bound Indian investments has confirmed that internal accruals were the major financing option used by Indian companies in 2010.[7] It also found that half of Indian acquisitions in the US in 2009 and 2010 were

buyouts of distressed assets, whose parent companies were severely impacted by the global crisis.

8. Role of Indian banks

Although normally banks in India are not permitted to fund the equity contributions of the promoters, financial assistance to Indian companies by the domestic banks for acquisition of equity in overseas joint ventures/wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investment has been permitted. Such policy should include overall limit on such financing, terms and conditions of eligibility of borrowers, security, margin, etc. While the Board of the bank may frame its own guidelines and safeguards for such lending, such acquisition(s) should be beneficial to the company and the country. In order to facilitate such financial support of Indian business abroad, the Reserve Bank has enhanced the prudential limit on credit and non-credit facilities extended by banks to Indian Joint Ventures (where the holding by the Indian company is more than 51 per cent) /Wholly Owned Subsidiaries abroad from the existing limit of 10 per cent to 20 per cent of their unimpaired capital funds (Tier I and Tier II capital). Banks in India were also allowed in May 10, 2007 to extend funded and / or non-funded credit facilities to wholly owned step-down subsidiaries of subsidiaries of Indian companies (where the holding by the Indian company is 51 per cent or more) abroad.

9. Role of the Exim Bank

Exim Bank has been involved in supporting Indian direct investment overseas since its inception and its role has been unique in this regard, given its mandate. The Overseas Investment Finance (OIF) programme of Exim Bank seeks to cover the entire cycle of Indian investment overseas including the financing requirements of Indian Joint Ventures (JV) and Wholly Owned Subsidiaries (WOS) with a suite of financing instruments, which include (a) finance for Indian company's equity participation, (b) direct finance to the overseas JVs/WOS, (c) finance for acquisition of overseas business/companies including leveraged buyouts and (d) direct equity investment. As on December 31, 2011, Exim Bank has approved credit aggregating to _ 240.92 billion for 374 ventures set-up by over 298 companies in 69 countries.

10. Role of Export Credit Guarantee Corporation of India Limited (ECGC)

While some of the overseas acquisitions have been hugely successful, some investments have been fully written off within a short span of time. There are a number of reasons for failure but the inability to withstand adverse changes in the operating economic and regulatory environment has been the most predominant one. This is a pointer to the need for adequate risk mitigants in the process of investments abroad. In 1980, ECGC introduced the Overseas Investment Insurance scheme. Since inception of the scheme, only 61 insurance covers with an aggregate value of 5.73 billion have been issued. One plausible explanation given for the low popularity of the scheme is the perception that the cost of insurance cover is high (which is between one to 2.5 per cent per annum depending on country and tenure of investment). It is, however, important to realize the spectrum of coverage the scheme offers by providing insurance coverage to investments against political risks including war, expropriation and foreign exchange repatriation restrictions. Thus, the Indian companies which intend to make investments in politically vulnerable countries would benefit from such insurance covers more that those having investments in developed countries[8].

11. SPV route for leveraged buy outs

Existing WOSs/JVs or SPVs are being used to fund acquisitions through leverage buyout route which reduces the risk on the domestic balance sheet. A substantial portion of investment has taken place through the SPVs set up for the purpose abroad. The funding is often arranged through overseas banks backed either by shares or assets of the target company and/or guarantees by the Indian parent. So far companies have largely used a mix of their retained earnings (internal source) and borrowings (external source) to finance their overseas acquisition. This is in quite contrast to what is generally seen in the context of many other countries' cross-border M and As where share swapping is a popular option of financing. Share swaps have not yet emerged as a favored payment option in India except in a few large transactions in the software industry8. During the post-reform period, Indian capital market has been significantly liberalised. As a result, the market capitalisation of stocks of Indian companies has also substantially improved over the years.

E. Measures taken by Government of India

Recognizing the need for promoting overseas investments, the Government of India has drafted strategic plans aimed at supporting smaller players. The Department of Industrial Policy and Promotion (DIPP) has identified South East Asia, Eastern Europe and Africa as zones where Indian companies would be encouraged to acquire assets as well as buy-out of companies. Also, in 2011, the Government of India approved a policy to support raw material asset purchases made by select public sector undertakings (PSUs) abroad. Under the revised policy, the investment limit for 'Navratna' firms has been raised to ` 30 billion from ` 10 billion for any asset buy-out and for the ‘Maharatna’ firms, the limit has been set at ` 50 billion. Government approval would be needed for any additional amount beyond this limit. PSUs in agriculture, mining, manufacturing and electricity sectors having a three-year record of making net profits are eligible under this policy. The Ministry of External Affairs and Indian missions abroad would be associated right from the beginning of the process for a buyout. The government is currently evaluating proposals to facilitate acquisition of strategic assets, particularly the energy sector, through a special investment vehicle or through cash rich PSUs in the field.

F. Emerging issues in outward FDI

1. Use and abuse of multi-layered structure

One contentious issue which needs to be addressed for providing a transparent policy framework for outward FDI relates to multi-layered structures. The motivations range from genuine business/commercial considerations to taxation benefits which are available to any global investors. On the flip side at times the underlying motive could be to create opacity through a labyrinth of structures for reasons unjustified on business grounds or from the point of view of home country’s interest. Hence, there is a need to have a greater clarity in our approach in this regard.

2. Controlled Foreign Companies under Direct Tax Code

To incentivize the overseas investments, in the last Union Budget, Government had announced a 50 per cent reduction in the tax rate in respect of dividend inflows from JV/WOS. Taxation in respect of overseas investments under the ‘Controlled Foreign Companies’ (CFC) norm of the proposed Direct Tax Code (DTC) would have implications

for Indian outward FDI. It may, however, take a few years before we come to any definitive conclusions on their implications after DTC is introduced.

3. Impact on current account deficit

The build-up in the foreign exchange reserves had supported the initiatives of liberalisation of many of the capital controls including the outward FDI from India. India being a current account deficit (CAD) economy, there is a need to closely monitor the capital outflows going from the country. We need surplus on capital account to finance India's growing current account deficit and also have to keep the level of foreign exchange reserves at a comfortable level given several demands on the reserves. Therefore, unlimited capital outflows for outward FDI could have significant implications for sustainability of India's CAD and external debt profile.

4. Impact on domestic investments

Another important factor that warrants close monitoring of capital outflows is implication for domestic investment. It needs to be ensured that overseas investment by Indian companies do not crowd-out domestic investments. Even though both domestic capital formation and overseas FDI investments have increased concomitantly in recent years, potential implications of rising trend in outward FDI for domestic investment, growth and employment need to be examined against the benefits that domestic companies derive elsewhere in terms of expanded market base, backward and forward vertical integration and cheap skilled labour. In a globalised business environment, establishing an overseas presence becomes inevitable on account of a country's policy on outsourcing, emphasis on on-shore presence, protectionism, etc. Hence, the Indian companies have to balance the need for domestic business expansion with the compulsions of overseas investments.

5. Likely impact of devolvement of contingent liabilities

It has been observed that in the recent years, the non-fund exposure in the form of guarantees issued by Indian companies towards their JVs/WOS has been rising (Table 1). Given the uncertain global environment, exponential rise in issuance of guarantees could be a potential concern for banks (who often provide back to back guarantees) and the Indian companies concerned.

6. Impact of economic downturn of foreign economies

Another important aspect that has to be borne in mind is that the overseas business model could go awry due to a variety of reasons, such as, sudden downward trend of the economy as experienced during the recent global financial crisis and the Eurozone sovereign debt crisis. Such events may adversely impact the financials of the Indian companies with a spill-over effect on the domestic corporates and banking sectors. Indian corporates who had acquired overseas assets at much higher premium in a bullish phase of business cycle or did not undertake intensive due diligence before such acquisitions in anticipation of future growth, potentially risk huge valuation loss during the downturn.

7. Ensuring security through strategic acquisitions

The emerging economies are becoming increasingly conscious of ensuring security in the fields of energy, commodity and food for the future generations. This has led to a spate of strategic acquisitions in the recent past, notable among them being acquisition of coal mines, oil fields etc. Given the nature of our foreign exchange reserves, which have not been built out of surplus, strains visible on the external sector and various other demands being placed on the reserves, funding of such ventures out of reserves does not seem a viable option. The other alternatives including overseas borrowing against sovereign backing or domestic resource raising through special cess and utilization of private sector resources in a PPP model need to be evaluated for this purpose.

G. Way Forward

1. Investments by individuals & LLPs

Today, we have an enabling regulatory environment for encouraging overseas investments by individuals. We, however, need to examine the existing caps and link it to the monetary ceilings applicable under the Liberalized Remittance Scheme (LRS) (remittance of US$ 200,000 for permitted current and capital account transactions). Some of the ceilings which may require rationalization include ceiling to acquire qualification shares and shares of a foreign entity in part/full consideration of professional services rendered to the foreign company or in lieu of Director’s remuneration, to acquire shares offered through an ESOP scheme globally, on uniform basis, in a foreign company which has an equity stake, directly or indirectly, in the Indian company. The Reserve Bank of India in consultation with the Ministries concerned has since decided to

a. remove the existing cap of one per cent on the ceiling for resident individuals to acquire qualification shares and to link the same to the monetary ceiling under the LRS;
b. to grant general permission to resident individuals to acquire shares of a foreign entity in part/full consideration of professional services rendered to the foreign company or in lieu of Director's remuneration with monetary ceiling as per the limit prescribed under LRS; and
c. to grant general permission to Indian resident employees or Directors to acquire shares through an ESOP scheme globally on uniform basis in a foreign company which has an equity stake, directly or indirectly, in the Indian company[9].

Issues relating to allowing individuals to set-up JVs/WOS abroad under a transparent policy framework within the LRS ceiling are also being examined. The extant regulations allow registered partnership firms to invest abroad. With the passing of the LLP Act, there is a need to review the regulation and examine if LLPs can also be permitted to invest in JV/WOS abroad.

2. Approach towards multi-layered structures

In the context of multi layered structures, taxation remains a contentious issue and a subject of debate. This issue, euphemistically, referred to as "Treaty Shopping" or "Tax planning" or "Tax Avoidance", has implications for outbound FDI. Reserve Bank in consultation with the government and all the stakeholders would like to examine the issues involved in a holistic manner.

3. Risks from global business cycles

Success of outward investment projects would also depend on the business cycles in the global economy. An outward FDI project undertaken during upswing phase of business cycle may not remain viable during downward phase. For instance, MNCs operating in sectors, *viz.*, automotives, metals and chemicals proved to be quite sensitive to adverse shocks of recent global crisis (UNCTAD, 2009)9. Hence, even though direct investment is generally undertaken with lasting interest in the host economy, companies, need to recognise the degree of sensitivity of their business activity to the global business cycle as well.

CONCLUSION

There exists a school of thought which apprehends that overseas investment by Indian corporate is at the cost of on-shore investment. One of the discernible reasons acting as an obstacle for companies to undertake on-shore investment could be the policy and procedural constraints. Any economy which follows a calibrated approach to capital account convertibility may also impose certain controls in allowing outflows. As the Indian corporate becomes increasingly competitive, they may aggressively explore globalisation opportunities as part of their future growth plans. Outward FDI related to acquisition of strategic resources, expansion of market base, leveraging new technologies for local markets, etc. would facilitate long-term growth in India and absorption of technology by Indian corporates alongwith improvements in the managerial skills. At the same time, through such overseas investments.

According to a recent Report by PricewaterhouseCoopers (2010), India might be the largest source of emerging market multination enterprises (MNEs) by 2024.10 By this period, number of MNEs in India would be higher than China by 20 per cent, and over 2,200 Indian firms are likely to invest overseas in the next fifteen years. The Report also expects that there will be further shift away from intra-regional investment in other emerging nations and towards a greater share of new multinationals going directly to the advanced countries. In particular, the Report projects that India MNEs are likely to make a niche in business services and high value manufacturing sectors. It is, thus, imperative that all the stakeholders including the government, the Reserve Bank, professional bodies like yours and Indian corporates bring together their collective experience and wisdom to constantly review the policies and procedures including Home Country Measures (HCMs) that would further facilitate our globalization efforts through outward FDI without adverse implications for vast domestic economy and its macro-economic stability.

REFERENCE

1. Address delivered by Shri. Harun R Khan, Deputy Governor, Reserve Bank of India at the Bombay Chamber of Commerce & Industry, Mumbai on March 2, 2012. The speaker acknowledges the contributions of Shri. R. Rajagopalan, Shri. Rajan Goyal, Shri, Rajeev Jain and Shri. Surajit Bose, Reserve Bank of India.
2. Neutrality refers to a condition that the amount of outward investment should be repatriated in full by way of dividend, royalty, etc. within a period of five years.
3. An Indian Party is a company incorporated in India or a body created under an Act of Parliament or a partnership firm registered under the Indian Partnership Act 1932 and any other entity in India as may be notified by the Reserve Bank. When more than one such company, body or entity makes investment in the foreign entity, such combination will also form an "Indian Party".
4. Athukorala, Prema-chandra (2009), "Outward Foreign Direct Investment from India", *Asian Development Review*, Vol. 26, No.2.
5. Net cross-border M&A purchases by a home economy imply purchases of companies abroad by home-based TNCs netted by sales of foreign affiliates of home-based TNCs.
6. Satyanand, P. N and P. Raghavendran (2010). "Outward FDI from India and its policy context", Columbia FDI Profiles issued by Vale Columbia Center on Sustainable International Investment, September 22.
7. Overseas investments by Indian companies– evolution of policy and trends : keynote address by Ms Shyamala Gopinath, Deputy Governor of the Reserve Bank of India, at the International Conference on Indian cross-border presence/acquisitions, Mumbai, 19 January 2007.
8. UNCTAD (2009), World Investment Prospects Survey 2009-2011, United Nations Conference on Trade and Development, New York and Geneva.
9. PricewaterhouseCoopers (2010), "Emerging Multinationals: The rise of new multinational companies from emerging economies", April.