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Why Do Indian Firms Go Abroad?

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Abstract

Overseas investments by the emerging economies are a feature of globalisation. Investments by Indian firms, though not large in volume, differ from that of other emerging economies such as China in their composition, destination and modality of investments. A relatively high proportion of their investments are in the manufacturing and services sectors of the developed economies such as the UK and the USA. A number of statistical studies have attempted to identify the factors motivating Indian firms to invest abroad. Most of these studies attempt to ground the analysis in the received theory of foreign direct investment centred on the ownership advantages, location and internalisation (OLI) paradigm. This paper argues that statistical tests cannot fully account for the unique nature of India's investments abroad. The pattern of investments that differs from that of the other emerging economies is to be attributed to India's endowments of entrepreneurial skills centring on exploration of investment opportunities and astute management of complex organisations. These endowments are an inheritance from history augmented by the contribution of India's diaspora abroad. The lukewarm investment climate at home may also be a factor in the decision of Indian firms in technology and skill intensive firms to venture abroad. Explanations for the unique nature of overseas direct investments by Indian firms have to be sought in the organisational structure and history of Indian business houses.

I Introduction

Foreign Direct Investment (FDI) these days doesn't arouse the sort of impassioned controversies and debates familiar to development economists during the decades of the sixties and the seventies of the last century. Rules and regulations governing inflows of FDI have been considerably relaxed by most developing countries that were lukewarm if not hostile to foreign investment in the recent past. Indeed, in recent years, the gamekeepers have turned poachers. India and China, two countries that were almost closed to FDI, have not only liberalised their FDI regimes, but also emerged as investors abroad. The stock of China's outward FDI increased from $27 billion in the year 2000 to $365 billion by the end of the year 2011 (UNCTAD, 2012). Comparable figures for India are $1.7 billion and $111 billion. India's FDI abroad, although much lower than that of China has increased substantially since the late 1990s, and differs significantly from that of China in its destination, composition and mode of entry into foreign markets.

China has financed its investments abroad from its huge reserves of foreign exchange generated by its exports. Indian firms have raised considerable volumes of funds in international capital markets for financing their overseas investments. According to the Statistical Bulletin of China's Outward Direct Investment (Ministry of Commerce, 2008) China's overseas investments, more than 90% of the total, are in developing countries in search of raw materials and oil to fuel the growing Chinese economy/ India's investments, for the most part are in developed countries, such as the UK, in skill-intensive manufactures and services. India's investments abroad add a new dimension to the observed flows of technology and know-how across frontiers with interplay between trade, labour flows and FDI.

Several papers have assessed the factors contributing to the growth in overseas direct investment (ODI here in after) from India and China in recent years. Most of the painstakingly designed econometric tests generally endorse the traditional theories of FDI as adequate for explaining the growth of ODI from the two countries. These exercises though are constrained by the absence of adequate data, problems associated with quantifying some of the characteristics specific to the emerging economies, and unexpected statistical results that defy explanation in the context of the received theories. This paper attempts to provide a

broader explanation of India's ODI based on the specific characteristics of India's business houses, the structural characteristics of the Indian economy, and the contribution of trade and labour flows.

The second section of the paper provides a brief overview of the extent and nature of India's overseas investments. The third section discusses the extant explanations for the nature and growth of India's ODI. The fourth section elaborates the conclusions of some of the statistical studies and provides a broader perspective on the factors that have promoted the growth of India's ODI. Section 5 concludes.

II The Indians are Coming, The Indians are Coming

The growth of India's ODI has been significant since the year 1990, the so called second wave of investments. The "first wave" between the years 1976 to 1986 resulted in a total stock of $93 million at the end of the year 1985, a sum much below the stock of FDI by most other developing countries including Mexico ($2,327 million) and China ($900 million). Most of the first waves of investments from India, to be precise more a flutter than a wave, were in other developing countries to the extent of 90 per cent of the total ODI.

The second wave of ODI, dating from the year 1990, is significant in several respects. First is the substantial increase in the volume of FDI compared with the first wave. The total stock of India's FDI increased from a meagre $124 million in the year 1990 to $ 111,257 million in 2011 with a share of 3% in the total ODI stock of the developing countries (Table 1).

Table 1: Stock of China and India's ODI ($ Million)

Countries	1981	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011
China	39	900	4,455	17,768	27,768	57,206	73,330	95,799	147,949	229,600	297,600	365,981
India	80	93	124	495	1,733	9,741	27,036	44,080	62,451	77,207	92407	111257

Source: UNCTAD (www.unctad.org/fdistatistics)

India's ODI is significantly different from that of China in its composition-whereas a large proportion of China's investments is in oil and raw materials, India's investments are in manufacturing and services (Table 2).

Table 2: China & India ODI

	India				China			
	2000/01 to 2006/07 (Billion $)	% share of total	2008/09 to 2011/12 (Billion $)	% share of total	2004 to 2007 (Billion $)	% share of total	2008 to 2010 (Billion $)	% share of total
Primary Sector	1.06	0.64	4.94	8.53	16.93	26.0	25.93	14.30
Secondary Sector	10.98	43.46	25.96	45.00	6.06	9.0	14.18	7.83
Tertiary Sector	13.22	52.00	26.93	46.54	42.34	65.0	141.14	77.87
Total	**25.26**		**57.86**		**65.43**		**181.24**	

Source: UNCTAD (www.unctad.org/fdistatistics)

Third, more than 50 per cent of India's ODI is in the developed economies while more than 75% of China's ODI is in the developing economies.

Much of India's investments in the developed countries are in Europe whilst most of China's investments are in developing countries, primarily Asian countries. These figures may not indicate the actual volumes of investments in the Asian countries as they are mostly in financial centres such as Singapore in the case of India and Hong Kong in the case of China .Both of these countries are financial intermediaries between the home countries and the host countries in Asia and Africa. Figures 1 and 2 below add to the information in Appendix Table 3 and show the significant differences in the destination of OFDI from India and China.

By the end of the year 2008 India was the second largest investor in the UK, next only to the US (Figure 2).

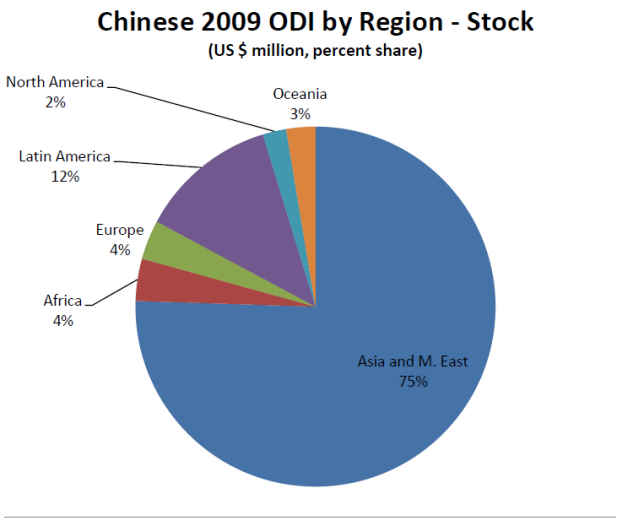


Figure 1

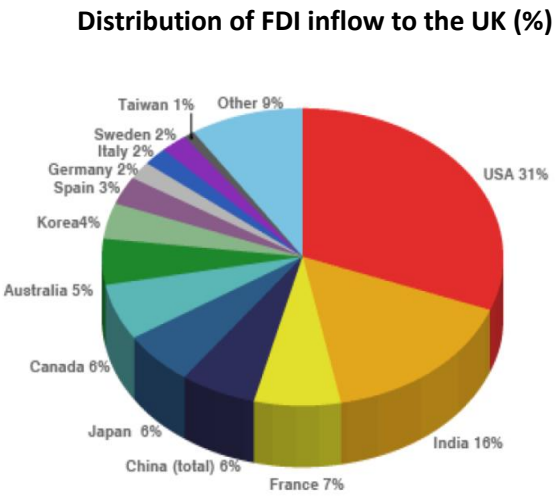
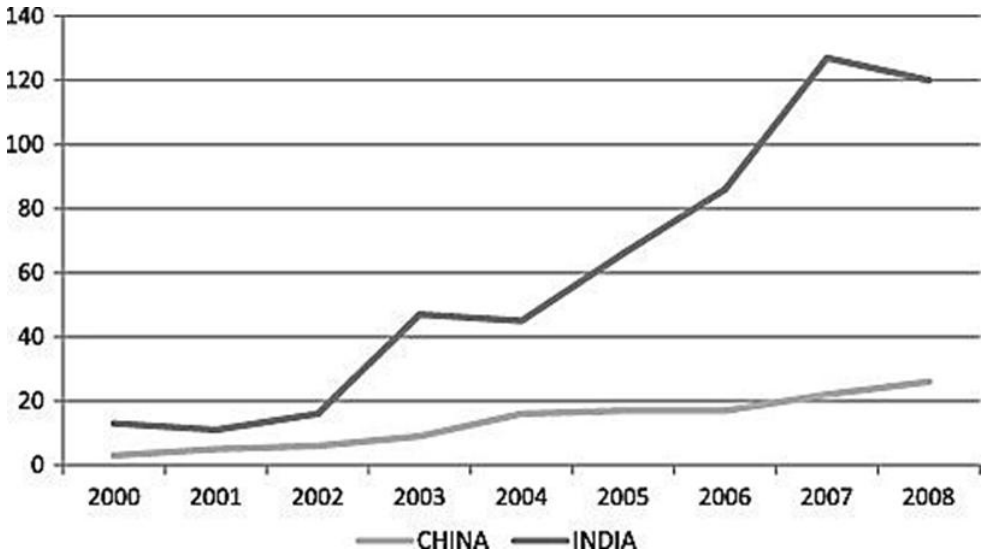


Figure 2 (Source: The Economist, 2009)

Fourthly, the growth of India's ODI is mostly through acquisitions (Figure3) 1n the year ending in August 2010 India was second in the list of the ten most acquisitive nations, with a share of 24% of cross-border M&A transactions originating from emerging countries, just behind China with a share of 29% according to Thomson Reuters data published by the Financial Times (Wagstyl, 2010). Over the years 2000-2009 Indian firms accounted for 1347 mergers and acquisitions amounting to $72 billion (Table 3).

Figure 3 Acquisitions by India and China



Sourse; DeBeule and Duanmu(2012)

Table 3: Geographic Distribution of cross-border Merger &Acquisition Purchases by Indian Companies, 2000-2009

Countries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
USA	22	12	9	17	20	35	43	62	76	27	323
UK	5	2	8	11	7	16	26	20	36	12	143
USA+UK	27	14	17	28	27	51	69	82	112	39	466
Canada	0	0	0	0	0	2	5	9	7	9	32
Others	34	29	34	52	47	91	111	112	198	141	849
TOTAL	**61**	**43**	**51**	**80**	**74**	**144**	**185**	**203**	**317**	**189**	**1,347**

Source: Thomson One Banker (2010)

During the three year period 2000-03 for which detailed data are available, the number of acquisitions by Indian firms was reported at 182, out of which 81 were in the manufacturing sector and 98 were in services, with pharmaceuticals and chemicals accounting for 36 of the total acquisitions in manufacturing, and business services, software and financial services accounting for 40, 24 and 20 of the services acquisitions respectively (Appendix Table 1).

Tetley Tea, Jaguar and Land Rover, Corus steel (all acquired by Tata's) Whyte and Mackay, the Scottish distillery firm acquired by Mallya the Indian entrepreneur, and a number of investments in software have all figured prominently in the media.

Although the volume of India's investments is much lower than that of China, the composition of India's FDI, cantered on manufactures and services, its heavy presence in the developed countries, its method of entry into foreign markets based on acquisitions principally the UK and the US, sets it apart from the other emerging economy investors It is these characteristics of India's investments that require analysis.

III Traditional Explanations

Firms invest abroad to exploit their monopoly over advantages(O) especially so when market imperfections of various sorts and institutional factors deny them the options of exporting the products or licensing the advantages they possess to foreign entities. This insight of Stephen Hymer (1976) has been discussed and elaborated to include choice of locations for investments abroad and ways and means of guarding ones monopolistic advantages from predators. The choice of locations abroad for investment would be dictated by a number of factors including the availability of efficient labour, infrastructure facilities, and stability of institutions and policies of host governments. All of these and other host country attributes favourable to investing firms are clubbed together as location advantage (L). Firms guard the advantages they own in production and distribution by internalizing all aspects of production and distribution, that is they extend their ownership and control over operations to sources of raw materials and distribution outlets (I). These three aspects of FDI are clubbed together and referred to as the OLI paradigm or the eclectic theory of FDI (Dunning, 1993).

The paradigm or theory is the subject of a number of econometric tests utilizing a variety of regression equations. The latest of these relate to ODI from India and China (Pradhan 2011, Buckley et.al, 2007; Kumar, 2007 & Nunnenkamp et.al, 2010).

The pioneering studies relating to India are those by Jayaprakash Pradhan who has produced a book (2008) and a number of articles on India's ODI (2011; 2004). These studies endorse the OLI paradigm, mostly O and L, I is taken as given as the firms that invest abroad do exercise control over operations. The first of several problems facing the statistical analyst is the availability of data on the dependent variable- the volume of ODI undertaken by Indian firms. Published data on ODI by Indian firms leaves a lot to be desired. A continuous time series on the volume, pattern and destination of ODI from published sources is hard to find and data on acquisitions differ between the sources.

Pradhan (2004) has painstakingly put together a set of data from a number of sources including the media and unpublished data from government sources. His data set relates to ODI undertaken by 2155 firms with the extent of ODI measured as the stock of ODI equity held abroad by each of the firms as a percentage of their net worth for the 10 year period 1990-91 to 2000-01. The variables that are used to measure ownership advantages of the firms venturing abroad include their R and D expenditures as a percentage of sales, labour

productivity defined as net value added per unit of wage and managerial skills variable measured as profits net of tax as a proportion of sales adjusted for a number of factors including age of the firm, advertising expenditures, technology and foreign ownership. The adjustments are undertaken to separate profits of the firm that can be attributed to managerial efficiency from profits arising from other attributes of the firm. Imports of technology by firms are yet another variable included to cover the ownership advantages of the outward investing firms. In addition to these variables the exercise includes exports of the firms measured as a percentage of their sales in each of the years covered by the exercise and a dummy variable to denote post 1991 liberalisation measures. The results of the regression analysis suggest that firms with high labour productivity, R and D expenditures, managerial skills as defined above, exports and the post 1991 liberalisation measures are a factor in the decision of Indian manufacturing firms to go abroad.

It is arguable whether or not these results endorse the proposition that Indian firms venturing abroad possess ownership advantages of the sort that the OLI theory emphasises. High labour productivity of the Indian manufacturing firms flows from the relatively high capital intensity of their production process and their heavy presence in industries that are typically capital intensive. These two features of Indian manufacturing are mostly a consequence of the pre liberalization import substituting industrialisation (ISI) era that is extensively noted in the literature (Bhagwati & Desai, 1970, Panagariya, 2008). In fact, most sub groups in the Indian manufacturing sector are much more capital intensive than comparable industry groups in China (Appendix Table 2). The measure of labour productivity used in the aforementioned statistical exercise is not output per unit of labour, but value added per unit of wage or the reciprocal of the efficiency wage. The high value added per wage unit of most firms may be a result of high labour productivity that is not matched by growth in the wage bill (Appendix table 3). It is not that the wage rate has not increased but just that employment in India's manufacturing has not increased appreciably. The low growth of wages as also that of employment is a feature of the manufacturing sector in the post liberalization era (Kannan & Raveendran, 2009). Indeed, there are studies that show that growth of exports in the post reform era has had very little impact on employment if any (Raj & Sen, 2012).It is widely noted that the high capital intensity of India's manufacturing sector is mostly driven by the numerous stringent labour laws that render hiring of labour and arduous and expensive task. The highly capital intensive organized manufacturing sector contributes only 13 per cent to total employment in the Indian economy. For these reasons high labour productivity may not

be an indicator of ownership advantages gained by labour training and organization, but a product of high capital intensity of Indian industry in general.

Most studies, including that by Pradhan (2004) report R and D to be a factor in the decision of firms to go abroad although none can identify the specific ownership advantages it yields, in fact the composition of Rand D expenditures is rarely reported. It is also surprising that the technology imports variable in the estimated equation is not statistically significant. This finding suggests that local R and D may not be the sort that can restructure and adapt imported technologies to local conditions. Capital and technology intensive industries such as pharmaceuticals do invest in R and D to keep abreast of rapid changes in technology and it may be a factor specific to the overseas investments of pharmaceutical firms. It is worth noting that Rand D though ranks only 8 out of a total of 11 factors that Pradhan includes in his analysis of the factors that motivate ODI by Indian firms.

The factor that tops the list of variables included in Pradhans' analysis of ODI by Indian firms is what he refers to as managerial skills. Indeed, by all accounts managerial expertise of Indian firms is an ownership advantage that influences firms to go abroad. But managerial abilities that consist of a variety of attributes is not an easily quantifiable variable, Pradhan quantifies it by regressing profits per unit of assets of firms on age, size, R and D, royalties paid for imported know how, sales expenditures and a set of dummy variables for type and ownership of industries and sectors. The estimated level of profits is deducted from the actual to arrive at returns to managerial expertise. This is an ingenious method of estimating managerial skills, something that is inherent in managers, which includes entrepreneurial skills unrelated to factors that characterize the firm. There may,however, be one problem with the measure however; it may merely reflect total returns to capital, say value added net of wages. If the wage rate is low or level of employment is low the residual after deducting wages from value added would be high. Put another way high profits may not be due to a high rate of return to managerial ingenuity but just total returns to ownership of capital, unearned income in Marxist terminology.

Managerial talents including organisational abilities are captured in the 'A' term(indicator of total factor productivity) in the estimated Cobb-Douglas type of production functions subject to constant returns to scale. Available estimates of total factor productivity growth in the Indian economy show that it hasn't increased by much in the post liberalization period (Deb Kusum et.al, 2010; Goldar and Kumari, 2002, Sen, 2007). Goldar and Kumar's study

records a decline in the annual rate of growth of total factor productivity of Indian manufacturing sector in the post liberalization period compared with that during the pre-liberalization period. They attribute this decline in the rate of growth of TFP in the post liberalization era to a reduction in capacity utilization in Indian manufacturing firms in general. Yet another study (Mukherjee & Majumdar, 2007) that provides a detailed analysis of technical change in Indian organised manufacturing industry from the year 1980 to the year 2000 arrives at a similar conclusion. The study analyses the contribution of technical progress (adoption of new technologies) and technical efficiency (increased productivity of existing inputs through organisation and improved utilisation)of existing inputs) across a number of industries and regions in India and arrives at the conclusion that neither of these factors have made a significant contribution to growth in productivity. The absence of technical efficiency in the case of most manufacturing firms shouldn't be regarded as the absence of managerial talent required to increase productivity of inputs. It is just that in the presence of rigid labour laws and a bureaucracy intent on stifling initiative managers may have opted for maximising profits through adding capital to the production process. They may also have resorted to outsourcing the production of some of the parts and components of products to labour in the unorganised sector, but it would add very little to the promotion of labour efficiency of the main production process.

The statistical results referred to earlier suggest that firms with large profits tend to go abroad. But not all firms with large profits may be able to do so. Indeed, it is likely that some if not many of the firms that have invested abroad may have raised the necessary funds in international capital markets.[†] Those Indian firms that have ventured abroad not only enjoy large profits but also a unique ownership advantage that can be termed entrepreneurship that includes managerial efficiency but is much more comprehensive and extends to risk taking, forecasting and identification of new markets to name only a few of the attributes of entrepreneurship. Indian firms may be unique amongst the firms of the emerging economies in this respect. A number of these unique attributes of firms that cannot be adequately captured in regression equations may explain the sort of investments and locales that Indian firms venturing abroad have opted for.

[†] Reports on acquisitions made by Indian firms suggest that foreign investors in Indian firms . prefer to invest cash than acquire equity in Indian firms.

IV The Unique Attributes of Indian Firms That Go Abroad

The theory or the eclectic paradigm of FDI suggests that firms venturing abroad should possess a monopoly over advantages that other firms including those in overseas markets do not enjoy. As discussed earlier the results of statistical studies on ODI by Indian firms do not adequately endorse this proposition. The so called ownership advantages are enjoyed by both domestic market oriented and foreign market oriented firms. It is impossible to generalise on the factors influencing firms that go abroad (Ramamurti 2008, Athreye and Sayeed 2013, Athukorala, 2009). In fact, most firms from emerging markets invest abroad to acquire technological capabilities- this is the so called asset seeking motive for ODI. The acquisition of existing firms does require managerial efficiency, but it is not the kind of efficiency that is referred to in the statistical studies. The skills that are essential for asset seeking ODI include identification of the nature and productivity of the assets that the targeted firms possess, the market potential of these firms, risks involved in operating abroad and above all the ability to manage operations in a foreign locale. The significance of these skills for firms from emerging economies, principally for Indian firms, investing abroad is reflected in the statistical exercises that report the impact of the presence of the country's diaspora in the host countries and the gravity models that account for the destination choice of firms investing abroad (Nunnenkamp et.al, 2012). Geographical proximity of the locales of investment to the home countries of investing firms and the presence of diaspora of the investor countries abroad are factors that enable investing firms to deploy the specific skills required to organise production abroad.

Additionally the acquired firms may have to be revived, they may possess production oriented advantages but may be ailing because of their inability to explore and develop markets. For the Indian entrepreneurs that were unshackled from the dirigiste economic regime during the 1990s, investing abroad and participating fully in the fast growing global economy was a challenge that had to be met.[‡] To use an expression coined by Keynes "animal spirits" of entrepreneurs, for long locked up by the dirigiste economic policies of the pre-liberalisation era, were released and there was a spontaneous urge to act on the part of

[‡] Nagesh Kumar suggests that the import-substituting phase of the Indian economy may have provided infant industry protection to Indian firms. Protected access to the domestic markets may have helped them to grow and build capacity. There is though little evidence to show this is the case. The fact that manufacturing accounts for only 18 percent of GDP is but one indicator of the negative impact of the controlled economic regime on the efficiency of the manufacturing sector. See Panagariya (2008) for a detailed analysis of the impact of differing policy regimes on growth and productivity of the Indian economy.

entrepreneurs.[§] It is such entrepreneurial talent that seems to have driven several Indian firms, most notably Tata's, to raise the capital required for their investments abroad in international capital markets. In the words of Nathaniel Leff (1979)

" entrepreneurship may reflect superior information, more importantly imagination, which subjectively reduces the risks and uncertainties of new opportunities, which are ignored or rejected by other investors"

Studies on entrepreneurship classify entrepreneurship into two broad groups-necessity entrepreneurship and opportunity entrepreneurship (Koster & Raj, 2008). The former is said to come into play when employment opportunities deteriorate and job seekers are forced to establish production facilities on their own. Opportunity based entrepreneurship occurs at high levels of growth, firms perceive opportunities for growth and explores ways and means of capturing new markets. Indian firms venturing abroad in the post liberalisation era may belong to the opportune based class or Schumpeterian entrepreneurs.

The entrepreneurial instincts and expertise of Indian firms is to be traced to several unique features of the Indian economy, Foremost of these is the inheritance from history. The sort of business management oriented skills India's managers possesses is shaped by the history of India's business and the structure of major business entities. India has had a long history of business entrepreneurship marked by its caste and community orientation. Foremost amongst these groups are the Banias and the Marwaris, primarily merchants and money lenders with a prominent role in financing India's foreign trade during the British colonial era. The Parsis who had no religious affiliation with either the Hindus or the Muslims were in a class of their own. They provided a link between the British and the Indian business houses

Harish Damodaran (2008), in a study of India's business classes, captures the special relationship of the Parsis with the British; "*being part of neither the Hindu nor Muslim mainstream, nursing no political ambition and exposed to commercial influences because of their proximity to the ports of Bharuch, Surat, and Daman, the Parsis seemed ideal for recruitment as native brokers, agents and shippers*" (Damadoran, 2008, p.14). Their business ties with the British East India Company were extensive stretching to participation in the lucrative opium trade with China in the 19 century.

[§] The purchase of Blackburn Rovers, a football club in the North of England, by Venkys (an Indian firm in the poultry business) can only be attributed to the animal spirits of Venkys' managers, not to their knowledge of soccer.

Business interests of both the Parsis and the Banias were oriented towards global markets for cotton, tea, silk and other raw materials. *In general, Indian firms have had an exposure to international markets for long.* A feature of Indian business enterprises during the colonial period was the ability of the Indian businessmen to move between two cultures- the Indian and the European with ease. As Tirthankar Roy (2011) writes *"the Indians moved between the informal world of community norms and the formal world of corporate law and capital market, with much greater facility than the Europeans, They straddled both spheres successfully, and used it to great advantage in undercutting European cartels."* It is this ability to traverse in two cultures with ease that is a factor in the managerial efficiency or specific ownership advantage that Indian entrepreneurs enjoy to this day. It is an advantage that has roots in the economic history of India some of the big business houses such as the Tata's have had international connections for long. Andrea Goldstein reports that "Tata's outlook has been outward- oriented from the very beginning. Tata Limited was established in London in 1907 as the Tata group's representative in London (Goldstein, 2008). It is also of interest to learn from Goldstein's well researched paper on the Tata group that the Tata Foundation gave seed research funds to Sidney and Beatrice Webb, the founders of the London School of Economics.

Second factor that has contributed to the development of entrepreneurial talent amongst Indian firm is the existence of business groups, mostly of the family orientation. Three quarters of the total number of acquisitions estimated at 1347 during the period 2000-2008 are reported to be undertaken by group affiliated firms as opposed to stand alone firms. This reflects the superior advantage enjoyed by business groups over standalone firms that enable them to efficiently internalize market externalities. (Pradhan, 2010, Khanna and Palepu, 1997, Khanna and Yateh 2007). Group oriented firms are not unique to India, they exist in other emerging economies too, but the family orientation of the Indian groups may be a feature of Indian business houses. The units that form the groups produce products and services that are diversified ,but they all share risks, draw on a pool of finance and information and invest in training of labour and management. Groups make up for the absence of developed capital markets and institutions of the sort that facilitate risk taking and planning in developed countries.

A third factor that has contributed to the sort of services oriented entrepreneurial skills of Indian business is the system of education, unique to India, from historic times to the present day. As Tirthankar Roy (2011) notes, the education system in India during the colonial days

was caste driven- *"the historical pattern of demand for education at all levels was biased towards certain castes and communities because these people had an inherited association with literate services. Groups that had contact with scribal professions, medicine, teaching, and priesthood, in the pre-colonial times, entered education, medicine and public administration in the colonial times. These classes and castes eagerly used the new schools and colleges, while other classes and castes entered schools on a smaller scale, and dropped out more readily. The correlation between family history of literate services, preference for service professions, and thus, preference for education, was especially close in the three port cities – Madras, Bombay, and Calcutta"*. The education system was caste based and dominated by those who wished to enter the professions. It was thus that the elite caste groups advanced from primary to higher education and the system catered to their needs and primary education for the population in general was ignored. It is the caste based education, primarily oriented towards the civil service and the professions, which laid the base for the growth of the services economy and software in the services group, which is one of India's major investors abroad.

Indeed, India's software industry of the present day reflects the sort of caste oriented education that promoted services in the past. The industry is dominated by members of the middle class, mostly upper castes, especially the Brahmins, that were prominent in civil service jobs in the past(Upadhaya 2007, Tauebe). Most of them were pushed out or barred from the civil service and government oriented jobs with the policy of reservation of jobs for the backward classes implemented by most state governments including Karnataka and Tamil Nadu. Faced with a loss of their domination of the civil service and other state related jobs the Brahmins sought their fortunes in the USA. The choice of software by the upper caste Indians with engineering and science education is explained by their aversion to manual labour and jobs involving work on the factory floor. It is of interest that Veblen (1899) in his well-known treatise the *Theory of the Leisure Class* cites the Brahmins of India as a fair illustration of the class of people who are exempt from what he terms as industrial employments. Veblen's category of the non-industrial upper class occupations includes government, warfare, religious observances and sports. Now to this list may be added software, a non-industrial job that requires an aptitude for organisation and attention to detail but not manual or industrial sort of work. The sort of ownership advantages Indian firms including the software firms possess is associated with organization, planning, forecasting, and exploration of sources of supply of goods and services. All of this that can be categorized

as managerial know how and efficiency is grounded in India's economic history, the pattern of education and other cultural attributes.

A fourth factor that has contributed to the growth of managerial expertise of the Indian business houses is the presence of India's diaspora in the UK and the US. Available data for the later part of the last decade shows that there were 1.6 million Indians in the UK accounting for 1.8% of total population of the country and in the US there were 2.8 million Indians accounting for 0.9% of US population. Whilst the Indian population in the UK is spread across a number of occupations Indians in the US are mostly in the professions .Most Indians who migrated to the US from the state of Karnataka in South India during the late sixties and the early seventies, entered American colleges of engineering and in jobs associated with space research which, of course, was oriented towards IT programming. Their median income of $90,000 is above that of the Americans estimated at $50,046.The professionals in both the US and the UKs act as what Devesh Kapur (2010) refers to as "reputational intermediaries"; the success of India's diaspora in the software industry in the Silicon Valley has enhanced global perception of India, especially perceptions concerning India's technology businesses. The diaspora are also a conduit for the transfer of technology and knowhow, especially so in the software industry. Many of the diaspora are what Jagdish Bhagwati (1974) refers to as "to and fro migrants," they traverse between India and the countries of their residence frequently and they have business interests in both countries. All of this enhances the managerial expertise of Indian business firms especially so in the service sector components of the economy such as finance, market intelligence and the software industry.

The attraction of investing abroad in the presence of a large domestic market, not just a potential one but one in place, fuelled by the demand for luxury goods and services by India's large middle and upper income groups, may seem odd. An often cited explanation for India's investments abroad, especially acquisitions of existing firms in the developed countries, is the so called asset seeking motive on the part of investors. There is some truth in this explanation as acquisitions provide a ready and easy access to tried and tested technologies in place. The utilization of these technologies back home requires their assimilation and adaptation to suit Indian conditions. There may be two other explanations for this spectacular growth of Indian investments abroad in the post liberalization era- foreign locales may be easier to access and operate in than the domestic locale. Although the 1991 reforms did do way with many cumbersome procedures including the licensing system and reservation of specific sectors for

small industries, corruption and cumbersome red tape persists. Recent reports in the media note the frustrations of Indian businessmen with the slow moving government regulatory system, even on the part of those, known as the bollygarchs, who had built up a working relationship with the bureaucrats (Crabtree, 2012). Add to this the often cited poor infrastructure facilities; investing abroad in developed countries may be attractive to profit laden Indian firms.

This attraction of foreign markets in the presence of a fairly lucrative domestic market in India has echoes of Britain's experience during the second half of the 19th century. During the period 1870-1914 Britain exported substantial volumes of portfolio capital mostly to the colonies, the total stock of British capital abroad in the year 1914 is estimated at $20 billion. These exports of capital occurred although there was unemployment at home and a substantial deficit in the trade balance. The recipients of Britain's investments abroad were the colonies, they serviced the borrowings with their export earnings and Britain paid for its imports of raw materials from the colonies with these returns to its investments abroad. This scenario, revisited during the 1980s, aroused considerable debate between those who attributed Britain's capital exports to differences in rates of return and risk between domestic equities and foreign bonds (Temin, 1987) and those who attributed it to various sorts of imperfections in the domestic markets (Pollard, 1985; Balasubramanyam, 1989). The imperfections in the domestic market that may have led to capital exports included structural rigidities, trade union power, and unwillingness to change occupations too quickly. These sorts of imperfections and rigidities seem to be a feature of the present day Indian economy too. It is of interest to note that the former colony that was the recipient of capital from the mother country during the 19th century is now exporting capital in the form of FDI to the former mother country for reasons similar to those that influenced the former mother country to invest in the colonies.

Yet another factor though not a significant one in the decision of Indian firms to go abroad may be the complementarity between trade and investment abroad, first suggested by Pradhan (2008). Exports of raw materials from the parent companies to their subsidiaries, however, may provide only a partial explanation for this complementarity. It is likely that whilst these firms export standardised undifferentiated products they invest abroad to manufacture differentiated products. Presence in markets abroad may be essential for the

production and sales of differentiated products. It is also the case that in certain industries, such as pharmaceuticals, firms produce a diverse range of interrelated products, and it may be economical and profitable to produce some of the products abroad and export the others from the home base. It is these factors that result in substantial volumes of intra-industry trade. Indeed, intra-industry trade appears to have grown substantially since the introduction of economic liberalisation measures in the year 1991. Available evidence on intra-industry trade suggests that it consists of both horizontal and vertical intra industry trade with the latter being prominent (Veeramani, 2001; 2012). Vertical intra-industry trade refers to the importation of goods belonging to a particular category from one set of countries and exports of goods belonging to the same category of industry to other countries. It is likely that the differentiated products abroad are imported back to the home country to service the domestic market.

In addition to the explanation in terms of costs of production stated above there is also the consumer preferences for variety, especially the love of goods produced abroad which provides an explanation for the growth in intra industry trade. As *The Economist* (2009) puts it "*Indians are fond of shopping abroad, a habit left over from the era of import substitution, when they had to put up with shoddy homespun goods in the name of national self-sufficiency".* Recognition of the growth in demand for differentiated products at home that could be serviced from investments abroad provides yet another example of the entrepreneurial abilities of Indian business houses.

In sum, the sort of skills Indian entrepreneurs possess that serves them well in their quest for investment locales abroad are an inheritance from the country's history - entrepreneurial and business skills from the colonial days and the engineering and human skills form the more recent past - the post-independence years. All of these skills were not dimmed but locked up during the days of the license Raj that lasted for more than three decades until the introduction of the liberalisation measures in the year 1991. During the import-substituting industrialisation era entrepreneurial skills were mostly deployed in acquiring various sorts of licenses and surviving in an economic environment of strict rules and regulations rather than one of healthy competition. Indeed, some entrepreneurs thrived on manipulating the investment and trade framework of the license raj to their advantage.[**] The sort of activities that the distorted economic regime encouraged, christened as "Directly Unproductive

[**] One entrepreneur who played the system to the advantage of his firm Reliance was Dhirubhai Ambani, See Hamish McDonald's (2010) narrative on the birth and growth of one of India's large corporations .

Enterprise" (DUPE) by Bhagwati (2004) may have provided entrepreneurs with adequate returns but it did little to promote the growth of trade and industry. The economic liberalisation measures let the genie out of the bottle. They liberated the entrepreneurs from the sort of dull and dreary chores of coping with rules and regulations and provided an environment for risk taking and facing the challenges posed by competitive markets in a globalised world.

V Conclusions

Outward FDI from India for reasons of history and the evolution of India's economic policies over the years is unique and distinct from that of other emerging economies. This paper argues that the proximate reason for the growth of India's outward FDI is her inheritance of a gifted entrepreneurial class of businessmen. The paper discusses the roots of the entrepreneurial class and the economic and social factors that have endowed them with the sort of entrepreneurial abilities that firms in other emerging economies do not possess. This affinity for international trade and finance of India's caste and community based business houses was held at bay by the dirigiste economic regime that was in place for four decades from the 1950s. The abolition of rules, regulations and restraints on entrepreneurship during the 1990s unleashed the animal spirits of the entrepreneurs and their desire to participate in the global economy through trade and investment. The sort of ownership advantages Indian firms investing abroad possess is in the domain of organisation, identification of investment and market opportunities and entrepreneurial talent that enables them to operate in international markets. These and other attributes identified in the paper cannot be easily quantified. Research in this sphere has to be based on case studies of the sort that Andrea Goldstein has put together. Perhaps the attributes that Indian firms going abroad can be quantified by analysing statistical data on their performance abroad compared with that of indigenous firms in theses locales. Unfortunately data for such an exercise is not easily available

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Appendices

Appendix Table 1 : Industry Distribution of India's Mergers and Acquisitions, 2000-2003

Number of Acquisitions		
	1996-1999	**2000-2003**
Total Industry	60	182
Primary	3	3
Secondary	35	81
of which		
Food Beverages and Tobacco	2	9
Textile, Clothing and Leather	2	1
Printing, Publishing and Allied Services	0	1
Oil and Gas; Petroleum Refining	1	7
Chemicals and Chemical Products	18	36
Rubber and Miscellaneous Plastic Products	0	1
Stone, Clay, Glass and Concrete Products	1	2
Metal and Metal Products	1	7

Machinery	0	5
Electrical and Electronic Equipment	8	9
Motor Vehicles and Other Transport Equipment	1	2
Measuring, Medical, Photo equipment; Clocks	1	1
Services	22	98
of which		
Electric, Gas and Water Distribution	2	1
Construction Firms	1	1
Trade	1	3
Transport, Storage and Communications	3	7
Finance	5	20
Business Activities	10	66
of which		
Pre-packaged Software	1	24
Real Estate; Mortgage Bankers and Brokers	1	0
Business Services	7	40
Advertising Services	1	2

Source: UNCTAD, cross border M&A database, in UNCTAD (2004)

Appendix Table 2: Manufacturing Industries in India and China 2002-03
Fixed Assets Per Unit of Labour
(PPP US$)

	Low Tech Industries			High Tech Industries	
	China	India		China	India
Wearing Apparel	11,007	11,500	Petroleum Refineries	191,349	1,200,201
leather Products	11,022	42,556	Machinery, except electric	17,473	38,223
Fabricated Metal Products	27,190	27,364	Transport Equipment	45,695	64,982
Wood and Products	39,648	56,283	Industrial Chemicals	54,652	329,615

Food Products and Beverages	43,605	31,974	Machinery, electric	16,680	35,075
Textiles	26,718	37,839	Professional and Scientific Equipment	85,404	73,537
Basic Metals	89,470	159,252			
Non Metallic	41,858	57,641			
Rubber and Plastic	35,972	64,505			
Printing and Publishing	41,806	36,095			
Paper and Products	55,796	93,710			
Total Low Tech	39,578	53,168	Total High Tech	39,154	130,859
Average	38,554	56,247	Average	68,542	290,272
Total Manufacturing	39,406	72,051	Total Manufacturing	39,406	72,051
Sources: UNIDO Industrial Statistics Database 2006, National Bureau of Statistics of China, China Statistical Year Book 2003, Beijing Annual Survey of Industries, Ministry of Statistics and Programme Implementation					

Appendix Table 3 Efficiency Wages of Major Indian Manufacturing Industries 2001-2006

Industry Code	**Description**	**Labour Productivity**		**Wage Bill**		**Efficiency wage**	
		Average (Rupees)	**Growth rate %**	**Average (Rs. Rupees)**	**Growth rate %**	**Average (Rs. Rupees)**	**Growth rate %**
24	Chemicals and chemical products	444000	6.07	99000	2.6	22320	3.38
27	Basic metals	469000	29.28	112000	0.23	23920	28.97
23	Coke, refined petroleum Products and nuclear fuel	2824000	34.51	177000	-2.34	6190	37.74
15	Food products and beverages	124000	1.75	44000	0.12	35340	1.62
17	Textiles	100000	4.96	51000	-0.38	50760	5.36
29	Machinery and equipment n.e.c. Motor vehicles,	258000	8.26	102000	1.27	3968	6.91

34	Trailers and semi-trailers	376000	23.44	115000	1.1	30770	22.1
26	Other non-metallic mineral products	167000	6.63	49000	-0.07	29330	6.71
31	Electrical machinery and apparatus n.e.c.	292000	8.98	98000	0.26	33440	8.7
25	Rubber and plastic products	203000	-2.41	64000	0.93	31350	-3.31
35	Other transport equipment	339000	9.44	96000	1.88	28490	7.42
16	Tobacco products [tobacco related Products]	91000	3.21	19000	0.86	20830	2.33
28	Fabricated metal products, except machinery and equipment	165000	7.77	67000	0.63	40650	7.1
32	Radio, television and communication equipment and apparatus	344000	0.33	117000	2.45	34130	-2.07
18	Manufacture of wearing apparel; dressing and dyeing of fur	88000	-3.82	43000	2.54	48310	-6.2
21	Paper and Paper products	179000	2.95	67000	0.45	37740	2.49
22	Publishing, printing and reproduction of recorded media	232000	7.21	94000	2.19	40820	4.91
36	Furniture; manufacturing nec	182000	-1.06	67000	3.57	36500	-4.49

33	Medical, precision and optical instruments, watches and clocks	304000	5.09	104000	3.02	34130	8.26
30	Office, accounting and computing machinery	636000	7.04	133000	1.1	21010	5.88
19	Leather manufactures	87000	0.55	41000	1.13	47390	-0.57
20	Wood and products of wood and cork	80000	9.71	35000	3.34	44050	-5.8
14	Other mining and Quarrying	58000	11.29	28000	-3.72	47170	15.59
	Other industries	256000	6.96	0.58	4.06	0.2252	2.79
	All industries	238000	11.38	0.68	1.22	0.2849	10.03

Source; Estimates based on Data from Annual Survey of Industries

Labour productivity = Net Value Added /Total persons engaged

Wage rate = Total Emoluments /Total persons engaged

Efficiency wage = Value added per unit of wage

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Fixed Assets Per Unit of Labour
(PPP US$)

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Sources: UNIDO Industrial Statistics Database 2006, National Bureau of Statistics of China, China Statistical Year Book 2003, Beijing Annual Survey of Industries, Ministry of Statistics and Programme Implementation