Notes

UNCTAD/DITE/IIAB/2004/1
20 October 2004

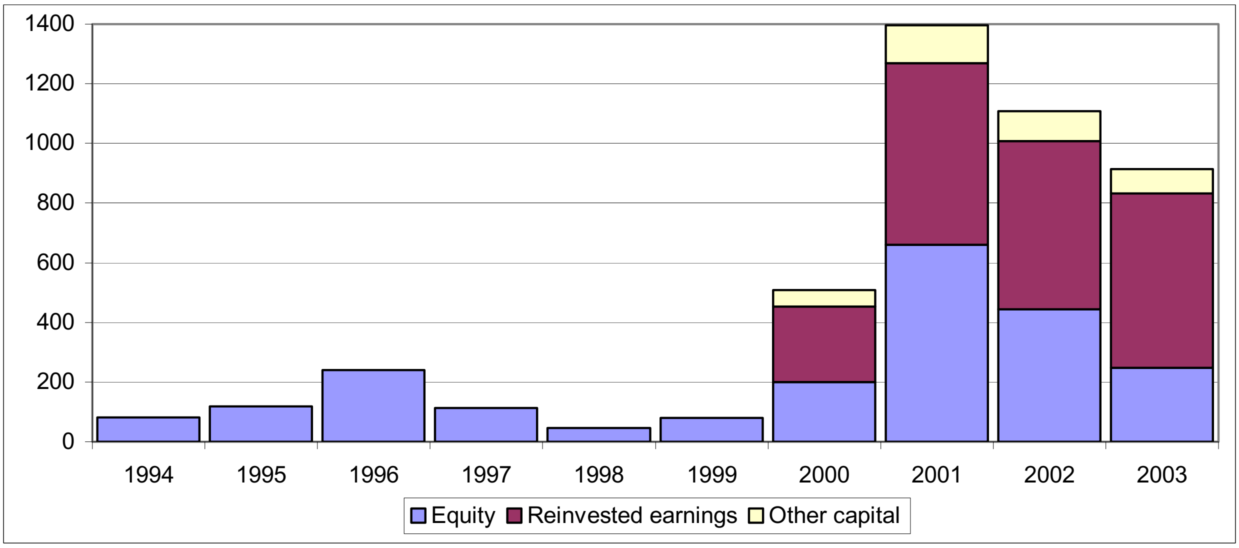
India's outward FDI: a giant awakening?

Indian firms have been investing abroad for many years. But it is only since the late-1990s that outward FDI flows have risen rapidly, albeit from low levels (figure 1).[i] Its outward FDI stock has grown from $0.6 billion in 1996 to $5.1 billion in 2003, taking India to 14th place in terms of outward FDI stock among developing economies (table 1). Its annual average outward FDI flows during 2001-2003 reached $1.1 billion, which were comparable to those of Malaysia and almost double those of Greece. (From April to June 2004, FDI flows were $174 million). Most Indian FDI is in manufacturing, but FDI in IT services has begun to grow rapidly, particularly through mergers and acquisitions (M&As). "The increasing competitiveness of Indian firms and their interest to expand globally, particularly in IT-related services and pharmaceuticals, are driving its outward FDI growth" said Karl P. Sauvant, Director of UNCTAD's Investment Division. Access to markets, natural resources, distribution networks, foreign technologies and strategic assets like brand names, are the main motivations.

The liberalization of government policies and relaxation of regulations on FDI abroad have helped. For example, in January 2004, the Prime Minister of India announced that "Indian corporates will hereafter be freely permitted to make overseas investments up to 100 per cent of their net worth, whether through an overseas joint venture or a wholly owned subsidiary….This will enable Indian companies to take advantage of global opportunities and also to acquire technological and other skills for adoption in India".[ii]

Figure 1: India's outward FDI flows, 1994-2003

(Millions of dollars)



Source: UNCTAD (www.unctad.org/fdistatistics), based on Reserve Bank of India.

Notes: Data for total FDI flows abroad from 2000-2003 include equity, intra-company loans and reinvested earnings. Data prior to 1994 are not available.

Table 1. Top 15 developing economies' outward investors, FDI stock in 2003 [a]

(Billions of dollars)

Rank	Economy	Value
1	Hong Kong, China	336.1
2	Singapore	90.9
3	Taiwan Province of China	65.2
4	Brazil	54.6
5	China	37.0
6	Korea, Republic of	34.5
7	Malaysia	29.7
8	South Africa	24.2
9	Argentina	21.3
10	Mexico	13.8
11	Chile	13.8
12	Venezuela	8.0
13	Iran, Islamic Republic of	6.8
14	**India**	**5.1**
15	Nigeria	4.6

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

a. Not including tax haven countries.

Destinations

The most important destinations of Indian outward FDI to-date are the United States, which accounted for 19% of total cumulative outflows during fiscal years 1996-2003, and the Russian Federation, with 18% of the cumulative outflows, a share that includes the $1.7 billion acquisition of a 20% stake in Sakhalin oil and gas field by the Oil and Natural Gas Commission (ONGC) in 2001 (table 2).

Two tax-havens, Bermuda and British Virgin Islands, together accounted for 11% of cumulative outward FDI, followed by Mauritius (9%). The double taxation avoidance treaty between India and Mauritius seems to have encouraged Indian firms to "round trip" investment through Mauritius and other tax haven countries to take advantage of the tax benefits enjoyed by overseas investors. Recent steps aimed at taxing in India companies resident in Mauritius that are also resident in, and effectively managed from, India, should diminish the round-tripping phenomenon. Overall, more than two-thirds of cumulative Indian outward FDI flows has gone to developing countries.

India is becoming an important investor for the United Kingdom and France. According to UK Department of Enterprise, Trade and Investment, during 2003-2004 India ranked seventh in terms of both jobs created from its investments in the United Kingdom and number of FDI projects. Investments there are largely related to IT, but also in biotech, food and drink, and film production. In France, India ranked thirteenth in terms of number of projects in 2003, a nearly three-fold increase compared with the number of projects in the previous year. France is now trying to woo actively such Indian TNCs as Tata, Reliance, Godrej and Mahindra & Mahindra.

Table 2. Geographical distribution of approved Indian outward FDI flows, fiscal years 1996-2003
(Millions of dollars; percentage)

	Fiscal year					Total	
Economy	1996-00	2000-01	2001-02	2002-03	2003-04[a]	FY 1996-03	Share
United States	378.5	734.2	428.1	185.3	138.7	1'864.8	18.8
Russian Federation	3.3	3.5	1741.9	0.2	..	1748.8	17.6
Mauritius	221.6	242.3	154.5	133.4	160.9	912.6	9.2
Sudan	..	..	..	750.0	162.0	912.0	9.2
British Virgin Islands	752.1	18.0	6.4	3.3	2.2	782.0	7.9
United Kingdom	269.8	55.3	85.5	34.5	98.1	543.2	5.5
Hong Kong, China	391.4	37.6	16.1	14.8	13.1	473.1	4.8
Bermuda	156.9	0.7	75.0	29.0	14.7	276.3	2.8
Viet Nam	0.4	0.2	228.2	0.1	0.0	228.9	2.3
Singapore	88.5	39.4	25.0	46.8	13.5	213.2	2.1
Oman	139.8	64.9	0.2	0.4	1.5	206.7	2.1
Netherlands	49.1	65.7	43.1	15.9	29.9	203.7	2.1
United Arab Emirates	87.2	11.3	11.8	12.6	29.5	152.3	1.5
Australia	2.6	2.5	1.9	95.0	41.3	143.3	1.4
Iran	59.2	..	..	43.6	0.1	102.9	1.0
China	17.1	7.9	13.3	29.6	19.8	87.7	0.9
Kazakhstan	3.2	..	1.3	0.1	75.0	79.5	0.8
Nepal	45.5	10.9	10.6	5.7	5.1	77.8	0.8
Austria	26.3	0.5	50.9	..	..	77.6	0.8
Sri Lanka	51.8	8.4	1.4	6.6	6.0	74.2	0.7
Malta	..	..	21.7	24.4	21.0	67.0	0.7
Ireland	31.8	0.2	11.4		0.0	43.5	0.4
Italy	11.7	30.5	0.0	0.1	0.0	42.3	0.4
Malaysia	33.1	4.8	1.4	0.8	1.4	41.5	0.4
Thailand	22.1	0.4	2.6	7.7	7.3	40.2	0.4
Indonesia	7.8	..	12.4	0.1	19.3	39.6	0.4
Morocco	32.5	..	..	..	..	32.5	0.3
Libya	..	..	30.0	..	..	30.0	0.3
Others	255.7	42.9	52.4	32.5	45.7	428.5	4.3
Investment in all countries	3'138.9	1'382.2	3'027.0	1'472.2	906.1	9'925.6	100.0
Memorandum:							
Developed countries	809.0	913.3	651.5	367.6	346.2	3'086.9	31.1
Developing countries	2'329.9	468.8	2'375.5	1'104.6	560.0	6'838.7	68.9

Source: UNCTAD (www.unctad.org/fdistatistics), based on Ministry of Finance, India.

[a.] Covers April-December 2003.
Note: Data consists of equity, loan and guarantee.

Table 3. Industry distribution of approved Indian outward FDI flows, fiscal years 1999-2003
(Millions of dollars; percentage)

	Industry										Total
	Manufacturing		Financial services		Non financial services		Trading		Others		
Fiscal year	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	
1999-2000	535.8	30.9	4.3	0.2	1130.7	65.3	58.3	3.4	2.3	0.1	1731.5
2000-2001	370.7	26.8	16.6	1.2	876.5	63.4	89.2	6.5	29.1	2.1	1382.2
2001-2002	2210.9	73.0	48.6	1.6	565.5	18.7	139.2	4.6	62.3	2.1	3027.0
2002-2003	1056.7	71.8	1.8	0.1	280.2	19.0	69.9	4.7	63.7	4.3	1472.2
2003-2004[a]	504.5	55.7	35.1	3.9	223.3	24.6	37.0	4.1	106.3	11.7	906.3
Total 1999-2003	4678.7	54.9	106.4	1.2	3076.2	36.1	393.5	4.6	263.7	3.1	8519.2

Source : UNCTAD (www.unctad.org/fdistatistics), based on Ministry of Finance, India.

[a.] Covers April-December 2003.
Note : Data include equity, loan and guarantees.

Sectoral distribution

Most outward FDI goes to the manufacturing sector, especially pharmaceuticals, although non-financial services account for as much as 36% (table 3). FDI in new service industries is causing a change in the geographical and industrial pattern of India's outward equity flows in the services sector. For instance, Singapore, Thailand, Sri Lanka and Malaysia took the lion's share of outward FDI in services from India during 1975-1990; however, by the 1990s, most Indian FDI in services was concentrated in developed countries, particularly the United Kingdom and the United States. By now, Indian IT companies are actively establishing operations abroad to expand markets and to service clients better.

Table 4. Top 15 IT software and service exporters from India, fiscal year 2002-2003

(Millions of dollars)

Rank	Company	Exports	Selected locations of affiliates
1	Tata Consultancy Services	963.0	Belgium, China, Germany, Japan, Netherland, Singapore
2	Infosys Technologies Ltd	750.7	Australia, Canada, China, Singpaore, United States
3	Wipro Technologies	590.5	Japan, Sweden, United Kingdom, United States
4	Satyam Computer Services Ltd	424.4	Germany, United Kingdom
5	HCL Technologies Ltd	324.3	Bermuda, Ireland, Netherlands, United States
6	Patni Computer Systems Ltd	193.6	United Kingdom, United States
7	Mahindra British Telecom Ltd	134.5	United States
8	iFlex Solutions	125.7	United States
9	HCL Perot Systems Ltd	95.1	Singapore, United Kingdom
10	NIIT Ltd	90.3	Germany, Switzerland, United States
11	Polaris Software	77.8	Germany, United States
12	Birlasoft Ltd	73.4	United Kingdom, United States
13	Mphasis BFL Ltd	71.1	China
14	Pentasoft Technologies Ltd	62.8	Indonesia, United States
15	Hexaware Technologies Ltd	54.6	Germany, Singapore, United Kingdom, United States

Source : UNCTAD, based on National Association of Software and Service Companies, India and various media sources.

Note : Companies such as Cognizant Technology Solutions, Syntel and others that are registered in the United States but offer India-based services delivery are not included in the ranking.

The top 15 Indian IT software and related service companies have all invested abroad, mostly in developed countries (table 4). Infosys Technologies Ltd. announced that it planned to create a new affiliate (Infosys Consulting) in the United States.[iii] Wipro Ltd., Birlasoft Ltd., and HCL Technologies Ltd. have operations in the United Kingdom and United States. Satyam Computer Services Ltd. has just launched its largest global development centre outside India in Australia. In addition, Indian call centres and business process outsourcing (BPO) companies are setting up operations abroad. For instance, Daksh eServices, India's largest BPO company has recently established a facility in the Philippines;[iv] MsourcE established a Spanish language centre in Tijuana, Mexico in 2003; Datamatics Technologies had acquired CorPay Solutions (United States) for $9 million in 2003 and is planning to acquire more companies in the United States, Europe and Canada;[v] Hinduja TMT Ltd acquired a controlling interest in c3, a call centre in the Philippines in 2003 for $3.9 million; and HCL Technologies announced in September 2004 that it would expand its call centre operation in Belfast with further investment of 1.9 million pounds.

In recent years, cross-border M&As have become an important mode of overseas market entry for Indian companies, particularly in the services sector (table 5). For instance, during 2000-2003, Indian companies were involved in 182 overseas M&As as compared to just 60 in 1996-1999. Most of the deals were in the United States and United Kingdom (table 6). M&A strategies are particularly prominent in the IT software services and pharmaceutical industries.

Table 5. Industry distribution of cross-border M&A purchases by Indian companies 1996-2003

(Number of deals)

Sector/industry	1996	1997	1998	1999	2000	2001	2002	2003	1996-1999	2000-2003
Total industry	8	13	13	26	55	35	35	57	60	182
Primary	0	1	0	2	0	0	1	2	3	3
Secondary	6	5	7	17	22	14	15	30	35	81
of which:										
Food, beverages and tobacco	1	0	1	0	2	3	1	3	2	9
Textile, clothing and leather	0	0	0	2	0	0	1	0	2	1
Printing, Publishing, and Allied Services	0	0	0	0	0	0	1	0	0	1
Oil and Gas; Petroleum Refining	0	0	0	1	0	3	1	3	1	7
Chemicals and chemical products	4	3	6	5	15	3	7	11	18	36
Rubber and Miscellaneous Plastic Products	0	0	0	0	1	0	0	0	0	1
Stone, Clay, Glass, and Concrete Products	0	0	0	1	0	1	0	1	1	2
Metal and Metal Products	0	1	0	0	1	2	0	4	1	7
Machinery	0	0	0	0	0	0	3	2	0	5
Electrical and electronic equipment	1	1	0	6	2	2	0	5	8	9
Motor vehicles and other transport equipment	0	0	0	1	0	0	1	1	1	2
Measuring, Medical, Photo Equipment; Clocks	0	0	0	1	1	0	0	0	1	1
Services	2	7	6	7	33	21	19	25	22	98
of which:										
Electric, Gas, and Water Distribution	0	0	0	2	0	1	0	0	2	1
Construction Firms	0	0	1	0	1	0	0	0	1	1
Trade	0	0	1	0	2	1	0	0	1	3
Transport, storage and communications	0	1	1	1	1	0	3	3	3	7
Finance	1	1	1	2	9	3	5	3	5	20
Business activities	1	5	2	2	20	16	11	19	10	66
of which:										
Prepackaged Software	0	0	0	1	10	4	1	9	1	24
Real Estate; Mortgage Bankers and Brokers	0	0	0	1	0	0	0	0	1	0
Business Services	1	4	2	0	8	12	10	10	7	40
Advertising Services	0	1	0	0	2	0	0	0	1	2

Source: UNCTAD, cross-border M&A database.

Table 6. Geographical distribution of cross-border M&A purchases by Indian companies, 1996-2003

(Number of deals)

	1996	1997	1998	1999	2000	2001	2002	2003	1996-1999	2000-2003
TOTAL WORLD	8	13	13	26	55	35	35	57	60	182
Developed economy	3	7	3	8	24	16	18	22	21	80
Western Europe	2	3	2	3	6	4	11	10	10	31
European Union	2	3	2	3	6	4	11	10	10	31
Denmark	-	-	1	-	-	-	-	-	1	-
France	-	-	-	-	-	-	-	1	-	1
Germany	-	-	-	-	2	2	2	1	-	7
Ireland	1	-	-	-	-	-	-	-	1	-
Italy	-	-	-	2	-	-	-	1	2	1
Portugal	-	-	-	-	-	-	1	-	-	1
United Kingdom	1	3	1	1	4	2	8	7	6	21
North America	-	1	1	4	15	11	7	10	6	43
United States	-	1	1	4	15	11	7	10	6	43
Other Developed Countries	1	3	-	1	3	1	-	2	5	6
Australia	1	2	-	-	3	1	-	2	3	6
New Zealand	-	1	-	-	-	-	-	-	1	-
South Africa	-	-	-	1	-	-	-	-	1	-
Developing economy	5	6	10	18	29	18	15	35	39	97
Africa	-	1	1	-	-	-	-	1	2	1
Sudan	-	-	-	-	-	-	-	1	-	1
Zambia	-	1	1	-	-	-	-	-	2	-
Latin America and the Caribbean	-	1	-	-	1	-	-	1	1	2
Bermuda	-	1	-	-	-	-	-	1	1	1
Cayman Islands	-	-	-	-	1	-	-	-	-	1
Asia	5	4	9	18	28	18	15	31	36	92
West Asia	-	-	-	1	-	2	-	2	1	4
Oman	-	-	-	1	-	-	-	1	1	1
United Arab Emirates	-	-	-	-	-	2	-	1	-	3
South, East and South-East Asia	5	4	9	17	28	16	15	29	35	88
China	-	-	-	-	-	-	-	2	-	2
Hong Kong, China	-	-	-	-	1	-	-	-	-	1
India[a]	5	4	8	11	23	14	13	21	28	71
Indonesia	-	-	-	-	2	-	-	-	-	2
Malaysia	-	-	1	-	-	1	-	1	1	2
Myanmar	-	-	-	-	-	-	1	-	-	1
Nepal	-	-	-	-	1	-	-	-	-	1
Philippines	-	-	-	-	-	-	-	1	-	1
Republic of Korea	-	-	-	-	-	-	-	1	-	1
Singapore	-	-	-	3	1	1	1	1	3	4
Sri Lanka	-	-	-	3	-	-	-	2	3	2
The Pacific	-	-	-	-	-	-	-	2	-	2
Fiji	-	-	-	-	-	-	-	2	-	2
Central and Eastern Europe	-	-	-	-	2	1	2	-	-	5
Czech Republic	-	-	-	-	-	-	1	-	-	1
Hungary	-	-	-	-	1	-	-	-	-	1
Poland	-	-	-	-	-	-	1	-	-	1
Romania	-	-	-	-	1	-	-	-	-	1
Russian Federation	-	-	-	-	-	1	-	-	-	1

Source : UNCTAD, cross-border M&A database.

[a] Refers to foreign affiliates in India.

Drivers

The motives for outward FDI from India differ across industries and over time. However, certain factors stand out as the main drivers.

- The increasing number of home-grown Indian firms (e.g. Tata Group, Infosys, Ranbaxy) and their improving ownership-specific advantages, including financial capability, are among the key drivers (table 7). In addition, the growing competitiveness of Indian firms involved in providing outsourced business and IT-services to foreign clients has provided a push for these firms themselves to go offshore to operate near their clients and to expand their growth opportunities in markets abroad. The success of Indian firms as service providers in the outsourcing of IT services, BPO and call centres by developed-country companies has exposed them to knowledge and methods for conducting international business, and induced outward FDI through demonstration and spillover effects.

- Indian firms are investing abroad to access foreign markets, production facilities and international brand names. For instance, Tata Motors Ltd acquired Daewoo Commercial Vehicle Company (Republic of Korea) in 2003 for $118 million for accessing the South-east Asian market and the Korean firm's production facilities. Infosys Technologies Ltd. acquired Expert Information Services Pty. Ltd (Australia) in 2003 for $22.9 million to strengthen its presence in the Australian market and to access clients of the acquired company. Similarly, companies such as Daksh eServices, Datamatics Technologies and Hinduja TMT Ltd have been going abroad to expand the markets for their services and exploit growth opportunities in other regions. Ranbaxy Technologies acquired RPG Aventis (France) in 2003 for $70 million to strengthen its market position in Europe and to access strategic assets (e.g. brand names). Tata Tea acquired Tetley Tea in 2000 for 271 million pounds for access to the Tetley brand name and market. In 2003, Jindal Polyester Ltd acquired Rexor (France) a polyester producer for 10 million Euros; Sundaram Fasteners Ltd bought Dana Spicer Europe Ltd (United Kingdom), a precision forgings business, for 1.5 million pounds; and Dabur India Ltd. acquired Redrock Ltd (United Kingdom) a cosmetic firm for market reasons.

- Access to technology and knowledge has been a strategic consideration for Indian firms seeking to strengthen their competitiveness and to move up their production value chain. In 2003, WIPRO acquired Nerve Wire Inc (United States) for $18.7 million to gain deep domain knowledge and other IT related benefits, including access to markets; I-Flex paid $11.5 million for Supersolutions Corp. (United States) for access to technologies and knowledge; Wockhardt Ltd bought a pharmaceutical company in the United Kingdom for markets, knowledge and strategic reasons; Reliance Infocomm bought Flag Telecom (United Kingdom) for $211 million to access to the undersea cable network and connect with key regions such as Asia, Europe and the United States. Access to technologies also means setting up R&D centres in key locations. For instance, Ranbaxy Laboratories has R&D activities in various countries, including in China and the United States.

- Securing natural resources is becoming an important driver for Indian outward FDI. For instance, in 2003 Hindalco acquired two copper mines in Australia and Oil and

Natural Gas Commission (ONGC) Ltd, a state-owned company, bought a 25% stake in a Sudan oil field from Talisman Energy (Canada) for $720 million to secure the supply of resources. ONGC acquired a 20% stake in Sakhalin oil and gas field in the Russian Federation in 2001 for $1.7 billion and in 2002 it bought a 20% stake in a gas field in Myanmar.

Table 7. TNCs headquartered in India, 2002-2003

(Millions of dollars and number)

Company	Industry	Foreign assets	Total assets	Employees
A. Industrial				
Reliance Industries Limited	Petroleum refining	278.3	13 493.0	12 915
Tata Tea Company Limited	Food preparations, not elsewhere classified	170.6	804.5	56 099
Aurobindo Pharma	Pharmaceutical preparations	144.1	334.3	2 450
Doctor Reddy's Laboratories Limited	Pharmaceutical preparations	144.0	490.5	5 852
Sterlite Industries Limited	Copper smelting & refining	133.1	1 414.0	..
Larsen & Toubro	Construction machinery	99.8	2 754.7	..
Asian Paints (India) Limited	Paints, varnishes, lacquers, enamels, and allied products	88.9	280.2	..
Orient Paper & Industries Limited	Hydraulic cement	82.9	217.1	4 208
Southern Petrochemicals Industries Limit	Phosphatic fertilizers	82.8	906.4	2 591
Wockhardt Limited	Pharmaceutical preparations	67.5	243.9	2 928
EID Parry (India) Limited	Nitrogenous fertilizers	46.4	331.3	3 835
Mahindra & Mahindra	Motor vehicle bodies	42.4	1 346.3	..
Titan Industries Limited	Watches & clocks	38.2	174.3	2 919
Saw Pipes Limited	Steel pipe & tubes	29.4	205.4	..
ITC	Cigarettes	27.9	1 798.9	13 285
Thermax Limited	Blowers & fans	14.7	131.0	..
Gujarat Ambuja Cements Limited	Hydraulic cement	7.8	975.8	..
Mukand	Other steel foundries	7.2	443.1	2 382
Cadila Healthcare	Pharmaceutical preparations	6.8	263.7	..
Godrej Industries	Soap & other detergents	3.5	238.2	..
Tata Iron & Steel Company Limited	Iron & steel forgings	0.0	2 688.6	43 248
B. Tertiary				
Satyam Computer Services Limited -ADR	Prepackaged software	127.3	596.3	9 759
Tata Infotech Limited	Data processing services	17.8	82.7	2 700
Digital Globalsoft	Computer programming services	16.9	83.2	2 490
Sonata Software Limited	Prepackaged software	15.4	35.8	645
CMC Limited	Computer programming services	12.0	103.8	3 368
Hinduja TMT	Prepackaged software	7.4	124.7	..
Infosys Technologies Limited	Computer programming services	..	823.9	15 356
C. Finance and insurance				
Bank of India	National Commercial Banks	3 845.4	16 168.2	43 141
Bank of Baroda	National Commercial Banks	2 415.6	16 490.1	40 313
Canara Bank	National Commercial Banks	312.8	17 543.0	47 566

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

More broadly: "Indian firms are increasingly subject to the same forces that increasingly shape firm behaviour: competition – through imports, inward FDI, licensing, franchising etc. – is everywhere. In the globalizing world economy, Indian firms, like their developed countries' counterparts, need to develop a portfolio of locational assets, as a source of their international competitiveness" said Karl P. Sauvant.[vi]

Regulatory framework

Improvements in the regulatory framework and encouragement by the Government have played an important role in the increase in Indian investment abroad. Initial liberalization of Indian policy towards outward FDI were made in the early 1990s. However, significant policy changes since 2000 contributed to the recent rapid growth of Indian outward FDI flows (box 1). These later liberalisation took place in an improving foreign exchange position of India. At the international level, by the end of 2003, India had signed 56 bilateral investment treaties and 65 double taxation treaties.[vii] These instruments increase the certainty and confidence with which Indian firms can invest in these partner countries.

Box 1. Selected significant Indian overseas investment policy changes since 2000

- Indian companies can make overseas investments by market purchases of foreign exchange without prior approval of the Reserve Bank of India up to 100% of their net worth; up from the previous limit of 50%.[a]

- An Indian company with a proven track-record is allowed to invest up to 100% of its net worth within the overall limit of $100 million by way of market purchases for investment in a foreign entity engaged in any bona fide business activity starting fiscal year 2003-2004. The provision restricting overseas investments in the same activity as its core activity at home of the Indian company is removed.[b] Listed Indian companies, residents and mutual funds are permitted to invest abroad in companies listed on a recognised stock exchange and in company which has the shareholding of at least 10% in an Indian company listed on a recognised stock exchange in India.

- The annual limit on overseas investment has been raised to $100 million (up from $50 million) and the limit for direct investments in South Asian Association for Regional Cooperation countries (excluding Pakistan) and Myanmar has been raised to $150 million (up from $75 million); for Rupee investments in Nepal and Bhutan the limit has been raised to Rs. 700 crores (up from Rs. 350 crores) under the automatic route.[c]

- Indian companies in Special Economic Zones can freely make overseas investment up to any amount without the restriction of the $100 million ceiling under the automatic route, provided the funding is done out of the Exchange Earners Foreign Currency Account balances.[d]

- The three years profitability condition requirement has been removed for Indian companies making overseas investments under the automatic route.[e]

- Overseas investments are allowed to be funded up to 100% by American Depository Receipt/General Depository Receipt proceeds; up from the pervious ceiling of 50%.[f]

- An Indian party which has exhausted the limit of $100 million in a year may apply to the Reserve Bank of India for a block allocation of foreign exchange subject to such terms and conditions as may be necessary.[g]

- Overseas investments are opened to registered partnership firms and companies that provide professional services.[h] The minimum net worth of Rs. 150 million for Indian companies engaged in financial sector activities in India has been removed for investment abroad in financial sector.

- During fiscal year 2003-2004, the policy on Indian FDI abroad has been further streamlined with the following changes:

  (i) Indian firms are allowed to undertake agricultural activities, which was previously restricted, either directly or through an overseas branch; and

(ii) Investments in joint venture or wholly-owned subsidiary abroad by way of share swap are permitted under the automatic route;

- In January 2004, the Reserve Bank of India further relaxed the monetary ceiling on Indian companies' investment abroad. With effect from fiscal year 2003-2004, Indian companies can invest up to 100% of their net worth without any separate monetary ceiling even if the investment exceeds the $100 million ceiling previously imposed. Furthermore, Indian companies can now invest or make acquisitions abroad in areas unrelated to their business at home.

Source: Reserve Bank of India and Ministry of Finance, "*Indian direct investment in JVs/WOS abroad*", 27 February 2004 (http://finmin.nic.in/the_ministry/dept_eco_affairs/investment_div/idi_December2003.htm)

Notes:

a. Reserve Bank of India Notification No. 83/RB 2003; 1 March 2003.
b. Reserve Bank of India Notification No. 83/RB 2003; 1 March 2003.
c. Reserve Bank of India Notification No. FEMA.53/2002-RB; 1 March 2002 and FEMA.79/2002-RB; 10 December 2002.
d. Reserve Bank of India Notification No. FEMA.49/2002-RB; 19 January 2002.
e. Reserve Bank of India Notification No. FEMA.40/2001-RB; 2 March 2001.
f. Reserve Bank of India Notification No. FEMA.40/2001-RB; 2 March 2001.
g. Reserve Bank of India Notification No. FEMA.49/2002-RB; 2 March 2001.
h. Reserve Bank of India Notification No. FEMA.40/2001-RB; 2 March 2001.

Outlook

Indian outward FDI in general continues to increase. India has become an important source of FDI to the South Asian region and other countries. Indian outward FDI in IT and software services are expected to grow rapidly. Countries such as Belgium, Canada, China, Japan and United Kingdom have been courting Indian IT companies to invest in their shores.[viii] The growing competitiveness of Indian firms and their increasing desire to venture abroad to expand markets, operate near to clients and acquire technology and brand names are key drivers pushing more Indian firms to go abroad. India's membership in various regional integration arrangements such as the Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMSTEC) Free Trade Agreement,[ix] South Asia Free Trade Area (SAFTA), Indian Ocean Rim Association for Regional Cooperation, Indo-Lanka Free Trade Agreement and the imminent ASEAN-India FTA will also provide Indian firms with a favourable platform to strengthen their presence in these partner economies. Not least, the encouragement and the significant liberalization of policies by the Government of India will continue to play an instrumental role in the rapid expansion of Indian firms abroad.

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[i] The adoption of international practices regarding the calculation of outward FDI statistics has also enabled a more accurate assessment of India's investment abroad.

[ii] See the inaugural speech of Prime Minister of India delivered at the second Pravasi Bharatiya Divas conference, 9 January 2004, New Delhi (http://pmindia.nic.in/speeches.htm).

[iii] See "Infosys looks to local talent for U.S. consulting business", *Gartner*, press release, 13 April 2004.

[iv] Daksh company's press release, "Daksh services announces launch of facility in Philippines", 7 January 2004 (http://www.dask.com/pr-7jan04.htm).

[v] See "Go West", *Business India*, 27 October 2003 (http://www.datamatics.com/news/mediagowestoct.htm).

[vi] For a discussion of FDI from developing countries in general, see UNCTAD, *World Investment Report 2004: The Shift Towards Services* at www.unctad.org/wir.

[vii] See UNCTAD, BIT/DTT database at www.unctad.org/fdistatistics.

[viii] See "Indian firms deepening presence in non-US markets", OffshoreDev.com, undated (www.offshoredev.com/jsp/features_detail.jsp?fid=53).

[ix] BIMSTEC comprises Bangladesh, India, Myanmar, Sri Lanka and Thailand. Bhutan and Nepal joined in February 2004. In the same month, the members of the association, except Bangladesh, signed the Framework Agreement.