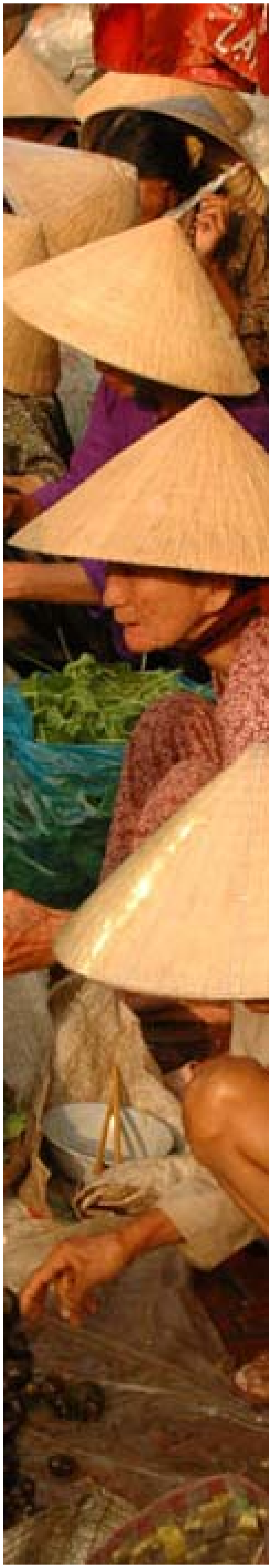

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OUTWARD FOREIGN DIRECT INVESTMENT FROM INDIA: THEORY AND EVIDENCE

Michael W. Hansen

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Abstract:

Indian outward foreign direct investment (FDI) has risen dramatically in recent years. This reflects that Indian multinational corporations (MNCs) are asserting an increasingly important role in the global economy, not only as resource and market seekers in less developed countries, but increasingly competing on par with western MNCs in their home markets. When we confront the Indian outward FDI path with theories of outward foreign direct investment from developing countries, a number of puzzles and anomalies becomes evident: Normally, we would expect strong inward FDI performance to precede strong outward FDI performance, however in India the rise in outward FDI has been almost simultaneous with the rise in inward FDI; Normally, we would expect developing country MNCs to invest in like or less developed countries, however Indian MNCs have in a rapid sequence moved into developed economies; Normally, we would expect developing country MNCs to be operating with less advanced technologies and business models, however Indian MNCs have moved directly into FDI in advanced sectors and technologies. This paper will offer a number of explanations for the unique Indian outward investment path, explanations that take their point of departure in the idiosyncratic nature of Indian industrialization.

Key words: Outward foreign direct investment; India; Challenger firms

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Introduction

Many years of mediocre performance of Indian industry has recently been replaced by a new-found optimism. Indian firms appear to be reasserting their role in the global economy, and global investors now see India as one of the main investment destinations of the future. That developing countries, like India, are attracting interest among foreign investors is not new. The new thing, however, is that developing countries themselves are becoming sizable foreign investors. In the last few years, India has seen an astounding growth in outward foreign direct investment (OFDI): While inward FDI (IFDI) doubled between 2004 and 2006, OFDI grew four times in the same period (UNCTAD, 2007). World class new-comer Indian firms are moving massively into IT and services in developed countries, and incumbent Indian houses are diversifying into the knowledge industry and/or acquiring the crown jewels of European and US manufacturing industry at intensifying rates. In industries such as pharmaceuticals, software, IT, telecommunications, and transport, Indian MNCs base their investments on advanced technologies, high knowledge intensity (Pradhan, 2005; 16) and on cutting edge strategies and organizational modes (Huang and Khanna, 2003; 75)[1]. Even within the traditionally highly protected Indian manufacturing industry we have seen a range of Indian manufacturing firms becoming global leaders in their industry[2]. Thus, it appears that India is in the middle of an OFDI take-off.

This paper will take the temperature on Indian OFDI. It will start out by reviewing the received theory on OFDI from developing countries in search of theories that may aid us in understanding OFDI from India. The paper will present a theoretical synthesis that may form an appropriate analytical framework for explaining Indian OFDI. The paper then moves on to describe major trends in Indian OFDI, claiming that Indian OFDI essentially can be divided into three major phase, ‘the initial phase’, ‘the start up phase’, and ‘the take off phase’. Finally the paper will confront the Indian OFDI path with received theory and draw conclusions as to the drivers of Indian OFDI as well as to the applicability of received theory.

Theories of developing country OFDI

According to traditional FDI theory, FDI is closely related to the ownership-specific/competitive advantages of the investing firms (Hymer, 1976; Dunning, 1981a; Dunning, 1988). Ownership-specific advantages play two roles: First, they are the reason why firms invest abroad in the first place. Thus, firms must possess some unique advantages (technological, managerial, reputational, etc.) that they can exploit in foreign locations. Second, the possession of ownership specific advantages explains why MNCs are able to overcome the ‘disadvantages of foreignness’ vis-à-vis indigenous firms. These disadvantages are related to problems of obtaining market intelligence, access to authorities, and access to factor markets, as well as to the costs of managing across borders.

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[1] For example, among Business Weeks 2006 Information Technology Top 100, there were 18 from 4 developing countries and transition economies, including a number from India. The Indian firms were described as having smart management, low cost structures, and visions to join the ranks of the global MNCs. Moreover, in 2005, the Forbes 200 (ranking of the world’s best SMEs) had 4 Chinese but 13 Indian firms on the list. A survey of the most innovative companies in 2006 found two Indian companies on the list, namely Bharty Tele Ventures (telecom) and Infosys (software) (Boston Consulting 2006).

[2] For example: Ranbaxy Laboratories, Reliance Industries, Hindalco Metals (part of the Aditya Birla Group), Welspun, Jubilant Organosys, Tata Motors, Bajaj Auto, Moser Baer, Bharat Forge, etc. (India Brand Equity Foundation, 2007).

While some theories of FDI understood FDI as a result of large firms' attempts to extent their market power into foreign locations (see e.g. Hymer, 1976; Kindleberger, 1969; or Caves 1996), other FDI theories focused more on external market failures when explaining FDI. Thus, the 'internalization theory' of FDI (Buckley and Cassson, 1976; Hennart, 1991) argued that when firms extend their activity to foreign locations, it is not only because they are monopolistic rent seekers as argued by the 'Hymer – Caves – Kindleberger tradition', but also, and especially, because they are efficiency seekers that want to reduce transaction costs of cross border activity. The transaction costs are for instance monitoring costs, bargaining costs and enforcement costs and they derive from the opportunistic nature of market agents and the uncertainty and asset specificities associated with transactions. Especially in markets for intermediary products and intangibles, market failures are widespread and therefore internationalization will be particularly common when transacting such goods.

The ideas of the market power and transaction cost schools were sought bridged by John Dunning's OLI framework (Dunning, 1981, 1988). The OLI essentially holds that FDI is a result of firms possessing ownership-specific advantages (O) that they want to exploit in foreign locations (L), which they cannot (profitably) do except through internalization (I).

The theory of FDI has largely been developed based on experiences of OECD-based firms. Thus, the theory is less suited for analyzing MNCs coming out of locations where O-advantages are weak and where widespread market and institutional failure radically changes the context of FDI. Hence, there are "*inevitably gaps*" in the traditional FDI literature, when it comes to explaining OFDI from developing countries (Buckley et al, 2007), as OFDI from developing countries remains "*a relatively neglected topic*" in the literature on FDI (Bonaglia et al., 2006). Nevertheless, we will argue that there are in fact a number of theories and frameworks that can help us understand OFDI from developing countries.

Third World MNCs

The theory on Third World Multinationals (TWMNCs) dates back to the late seventies and early eighties (see e.g. Legraw (1977, 1981), Dunning (1981b), Lall (1983), or Wells (1983) for early contributions)[3]. This early literature was inspired by consecutive waves of OFDI from developing countries in Latin America, West and South Asia, and Africa in the 1970s and 1980s. The main propositions of the TWMNC literature can be phrased in terms of the OLI framework: Concerning ownership specific advantages (O), TWMNCs will tend to posses advantages that are less advanced, typically related to products in the mature phases of the product cycle (Vernon, 1966), and mainly associated with low cost production, natural resources extraction, and an ability to cater to low margin markets. Concerning location advantages (L), TWMNCs will, as a consequence of their specific O advantages, tend to focus their activities in countries at the same or lower stages of economic development (Dunning and Narulla, 1996) and/or in countries with a low psychic and geographical distance (Johanson and Vahle, 1977). Concerning internalization factors (I), TWMNCs will tend to opt for joint ventures to access local market knowledge, technology and capital, thus, compensating for their inherent resource limitations (Lecraw, 1981).

Especially Lall's theory of 'localized technological change' has been widely applied. Studying Indian MNCs, Lall (1983) found that these MNCs were located in labor-intensive, low-

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[3] For a review of this early literature see Goldstein (2005) or Beausang (2003).

technology sectors with low levels of differentiation. Rather than exploiting frontier technologies, the O advantages of these firms were related to their ability to change and adapt imported technology to the specific cultural, market and institutional environments of developing countries and to adapt their business models to developing country conditions (Kumar and McLeod, 1981; Wells, 1983; Lall, 1983). Thus, the success of TWMNCs rested in their ability to de-scale technologies and products (Wells, 1983) and distribute and market relatively unbranded and undifferentiated products in developing countries based on their low overheads (Lall, 1983; Lecraw, 1981).

Due to their inferior O advantages, TWMNCs would rarely compete directly with western MNCs (Wells, 1981; Lecraw, 1981, Nambudiri et. al, 1981), but would in stead invest in other developing countries (Wells, 1981). This OFDI would frequently be a defensive move made partly because tariff barriers prevented exports, partly because local entrepreneurs in export countries tried to copy the product. To the extent that investments in more advanced countries took place, it would be to support exports, e.g. of artisan products (Wells, 1981). As the O-advantages of TWMNCs were weak, their internationalization would tend to be gradual and sequential[4]. Through gradual internationalization, investors gain experience that provides a platform for further expansion and greater commitment. Thus, investments would mainly take place in locations with low geographical and psychic distance, neighboring developing countries that is (Beasung, 2003), and joint ventures would be common as a way to gain access to external resources such as knowledge about local markets and/or capital.

Late-comer firms

Where the traditional OFDI literature viewed OFDI from developing countries as an 'outlayer' with "marginal" significance for global economic developments (Vernon-Wortzel and Wortzel, 1988), a growing literature has recently challenged this view. Spurred by the surge in OFDI from developing countries in the 1990s, and 2000s and echoing Gerschenkron's (1962) notion of 'late-comer' advantage of 'backwardness', this literature is interested in explaining why growing numbers of developing country firms are successful in competing with western firms in their own markets. Are there, this literature asks, some particular advantages of being 'late-comer' that explain the rise of developing country MNCs?

The literature on late-comer firms dates back to the late 1980s, when the success of especially Asian OEMs to upgrade technology and move into more advanced activities generated growing interest (see e.g. Vernon-Wortzel and Wortzel 1988; Cantwell and Tolentino 1990). Apparently, a handful of developing countries had moved through an advanced transformation of their industrial structures, which, inter alia, had lead to the emergence of powerful MNCs (Cantwell and Tolentino, 1990). This literature diverted from the aforementioned TWMNC theory by stressing the ability of developing country firms to compete on par with developed country firms, but "*at the same time, its logic reflects the unique aspects of Third World outward investment*" (Beausang, 2003; 32) that had been analyzed by the TWMNC literature.

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[4] Here the TWMNC literature often refers to the so-called Uppsala theory of internationalization. This theory focuses on experiental learning in internationalization processes (Johanson and Vahlne 1977). The Uppsala theory was originally developed to understand internationalization of SMEs from Nordic countries in the 1970s, but it has been widely used to analyze OFDI patterns from developing countries (see e.g. Beausang, 2003).

The basic idea of the late-comer literature is that developing country MNCs, qua being located in developing countries, are provided with some particular advantages vis-à-vis western firms. These firms, being late-comers, are not as inhibited by institutions, procedures, traditions, and conventional ways of doing business as are developed country firms. They are, it is argued, more willing to take on new ideas and innovations and less constrained by managerial and strategic orthodoxies (UNCTAD, 2006; 150). They possess a number of advantages emanating from the developing country context, including flexibility, low overhead, cost effectiveness, and business models, that fit emerging market contexts (Buckley et al, 2007). A particular strength is these firms' ability to draw on linkages with other firm and non-firm actors in their internationalization process. Thus, these firms have an advantage in "*the use of networks and relationships, organizational structures, the leveraging of cultural ties or institutional affinity and other heterogeneous sources of potential advantage*" (UNCTAD, 2006; 150).

In a widely debated article, Matthews (2006) tried to explain how it can be that "*some firms challenge established positions in the global economy, and displace incumbents, some of them highly advanced and fiercely competitive – especially when the challengers start small, lack key resources and are distant from major markets?*" (Mathews, 2006; 6). To Matthews, Asian challenger firms are the true protagonists of globalization, not being "*burdened with existing commitments and attitudes born of domestic self-sufficiency and regard the world market as their home*" (Matthews, 2006; 7). Matthews finds that these firms share three characteristics: 1. their ability to internationalize very rapidly ('accelerated internationalization'); 2. their ability to undertake organizational innovation, e.g. using network strategies in their internationalization; and 3. their ability to innovate strategically, e.g. by exploiting fully the opportunities offered by globalization. Thus, in Matthews' view, internationalization is far from gradual and sequential as predicted by the gradualist school, and rather resembles 'born global' paths (Madsen and Servais, 1997). Moreover, internationalization takes place on the background of unconventional O-advantages and without a strong prior resource base, rather than on the background of exploitation of existing superior O-advantages, as argued by the traditional FDI theory. In fact, according to Matthews, one of the defining characteristics of challenger firms is their ability to complement their existing O-advantages with those of other firms through OFDI (Mathews, 2006; 9)[5]. For this reason Matthews argue that conventional FDI theory in general, and the OLI in particular, is not very helpful in explaining Asian late-comer firms. As an alternative to the OLI, he proposes the LLL model (Linkage, Leverage and Learn model) for late-comer/new-comer firm advantages. The late-comer firm performs well by focusing, not only on its own, existing advantages, but more on how to acquire advantages externally through linkages (Linkages). Moreover, this firm has a strong ability to leverage resources in networks rather than gaining advantage from internalization (Leverage). Finally, such firms have a strong ability to learn and imitate and build advantage from experiences in linkage and leveraging processes (Learn).

Converged firms

Finally, it should be mentioned that not all observers accept the premise that we need a special line of theorizing for developing country OFDI. Thus, it can be argued that it essentially is the

[5] Similar arguments have been advanced by other authors. For instance, it has been suggested that OFDI from developing countries can be understood as an attempt to acquire lacking O advantages through internationalization (Moon and Roehl, 2001). In a similar way, Hwang (2003) has argued that Asian firms a good at undertaking "*reverse FDI*", that is FDI made to buy/ acquire skills.

same logics and the same dynamics that characterizes developing country and developed country MNCs. At least, the differences are being reduced with globalization: Globalization levels policy and market barriers between countries, allowing developing country MNCs to embark on OFDI on par with their western counterparts. Even if MNCs in developing countries initially may have disadvantages in terms of technology, management and market access, they can relatively easily acquire assets that can mitigate these disadvantages. For instance, markets for capital, technology, and market intelligence have dramatically improved in recent decades, thereby making their acquisition of such assets relatively easy for new-comer/late-comer firms from developing countries (Teece, 2000).

A dynamic perspective: The Investment Development Path

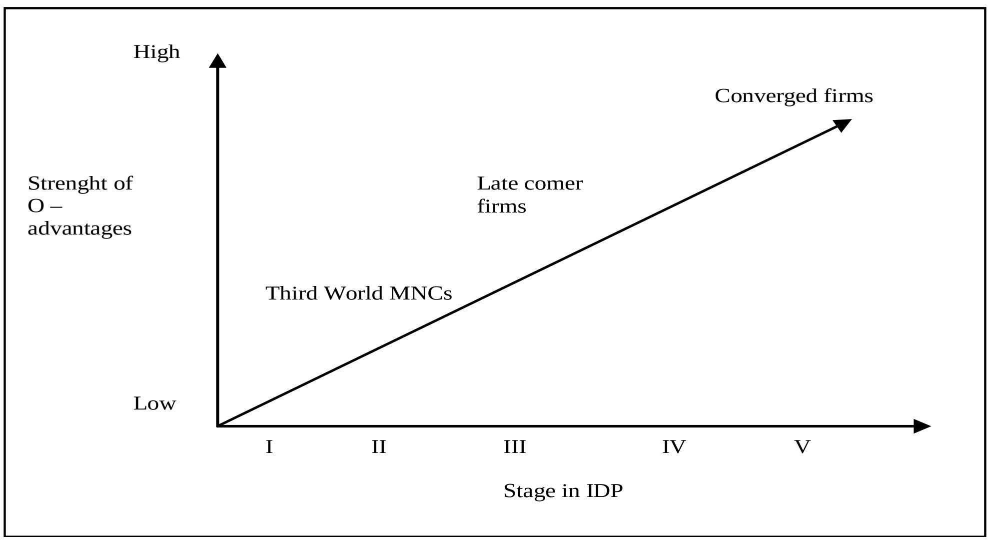
The above-mentioned theories focus on developing countries as one. In doing that, they fail to provide an explicit account of how the specific home country context influences O-advantages. Obviously, it can be expected that O-advantages of MNCs in least developed countries are very different from MNCs in Newly Industrialized Countries. Moreover, the O-advantages of MNCs in a given country can be expected to change over time, as the country transforms its economy. To inject dynamism into the discussion of OFDI from developing countries, the Investment Development Path (IDP) may be particularly useful. The IDP (see Dunning, 1981c; Dunning and Narula, 1996, 2004) seeks to explain the link between the net-OFDI flows (outward less inward FDI) and the level of development of a given country. The hypothesis is that FDI patterns change fundamentally as a country develops. Thus, countries are divided into five stages: At stage one, we have least developed countries. Here, very little FDI takes place, and if it takes place it is mainly inward investment to exploit received comparative advantages, typically natural resources. At stage two, the host country has developed certain advantages that make it desirable for MNCs to move in and exploit these advantages. The advantages will typically be ‘undifferentiated’, e.g. natural resources or cheap but unskilled labour. Moreover, beginning economic development at this stage creates a domestic market that foreign investors take advantage of. As the O-advantages of local industry are still weak, there is little basis for OFDI, and if it takes place, it will be backward in the IDP or in countries at similar stages of the IDP. Stage 3 countries have created more sophisticated and differentiated advantages (‘created assets’) through industrial policy, education, infrastructure and infrastructure development. These advantages are increasingly exploited by efficiency-seeking foreign investors. Moreover, rapidly growing markets make market-seeking foreign investors flock in especially the larger of these countries. OFDI is taking off at this stage, partly aimed at countries backward or at similar stages in the IDP, but increasingly also aimed at acquiring assets in more advanced countries (strategic asset seeking investments) that can improve local firms’ advantages further. At stage 4, a strong domestic industry has evolved. This industry embarks massively on OFDI, partly into the most advanced countries, at stage 5, partly to exploit their advantages in less advanced countries. Thus, Stage 4 countries will be net outward investors. At Stage 5 - the most advanced countries - we see a convergence of inward and outward flows.

Synthesis

As seen from the above, we have a number of competing theories of OFDI from developing countries. In terms of O-advantages, these theories can be placed on a continuum depending on the degree of convergence between O-advantages of developing country MNCs and developed country MNCs. At one extreme, we have the MNCs with inferior O-advantages, as described by the TWMNC literature. At the other extreme, we have the position holding that MNCs in developing countries are not fundamentally different from those of advanced markets. In between, we have the late-comer firms - firms that are distinctly developing country MNCs but have advantages that enable them to compete head on with developed country MNCs.

Rather than viewing these theories as competing, they can be seen as complementary. This is essentially the argument made by the IDP. This theory holds that MNCs have different types of O-advantages at different stages of the IDP and that this explains the level and profile of OFDI. Thus, from the perspective of the IDP, the original TWMNC literature focused on firms from Stage 1 and 2 countries, where OFDI was negligible and mainly directed backward in the IDP. The late comer firm literature in contrast, is mainly concerned with Stage 3 countries. In such countries, domestic firms have growing O-advantages and have started investing in similar or even more advanced countries to exploit these advantages. Growing investment forward in the IDP at this stage is a reflection of these firms' attempts to augment their advantages through asset seeking investments, e.g. acquisition of brands, distribution networks, or R&D facilities. As countries mature even more in Stage 4 and 5, we see a movement toward convergence of the O-advantages of domestic firms with those of developed country firms. Firms at these stages are increasingly competing on par with firms in advanced countries, and are balancing resource, market, efficiency and asset-seeking investments in a similar way.

Figure 1 Strength of O-advantages at different IDP-stages



Source: Author's own illustration

In the following, this framework will provide the backdrop to the analysis of OFDI from India. But first, let us examine the Indian OFDI path in detail.

A historical account of Indian OFDI

In recent years, OFDI from developing countries has increased significantly, from a level around \$30 billion in 1990-1995 to a level around \$90 billion 2000-2005 (UNCTAD, 2006). Relative to global FDI, FDI from developing countries has increased from a level of app. 8% in the 1990s to a level of around 18% today (UNCTAD, 2007)[6]. This increase is mainly due to investment from Asian developing countries. While the Asian OFDI was previously driven by Hong Kong, Singapore, Taiwan and Korea, now India and China are becoming the leading Asian outward investors, accounting for more than ¼ of OFDI from this region in 2006, up from 10% two years earlier. In other words, together with China, India is becoming a sizable player in Asian OFDI[7].

The phases of outward Indian FDI

OFDI from India is not a new phenomenon. In 1920, Mafatlal (textile) invested in a cotton-spinning operation in Uganda. Birla invested in Africa in the 1950's and in South East Asia between 1965 and 1981. In the early 1960s, large Indian conglomerates such as Tata and Kirloskar expanded their activities into Africa and Sri Lanka. And Ranbaxy set up its first JV abroad in Nigeria in 1977. These investments were, however, modest and hardly detectable in FDI statistics. In the late seventies and early eighties there was a more profound increase in OFDI, which gave rise to a literature on Indian OFDI (see e.g. Agrawal, 1981; Lall, 1983; or Kumar and Mcleod, 1981). However, it was only with economic reforms in 1991 and onwards that OFDI from India picked up in earnest; and since 2001 investment has surged.

To characterize OFDI from India, Pradhan (2003, 2005) and Sauvant (2005) distinguish between two major phases: The first phase goes from the early investment boom of the mid 1970s to the adoption of the new industrial policy in 1991. The second phase runs from 1991 to the early 2000s. The phases are associated with major policy as well as structural changes in the Indian economy. We will, however, argue that the contours of a third phase are now discernable in Indian OFDI patterns and policy, going from 2001 and onwards. Thus, in the following, we will make a distinction between three phases of Indian OFDI - denoted 'the initial phase', where OFDI was small and stagnant and severely restricted by OFDI regulation; 'the start up phase', where OFDI began to grow in tandem with liberalization of policy regimes; and the current 'take off phase', where OFDI surged in conjunction with continued and deeper liberalization and opening of the Indian economy.

The initial phase (1975-1990)

During the initial phase of Indian OFDI, the vast majority of investments were made by manufacturing firms. The level of commitment of the investing firms was modest, and typically investments played minor roles in their strategies. Moreover, in all cases, the Indian firms were minority participants in the OFDIs. The vast majority (86%) of investment went to other developing countries, the main destinations being Singapore, Thailand, Sri Lanka and Malaysia, and was made in the form of minority participation (Kumar and Mcleod, 1981; Lall, 1983).

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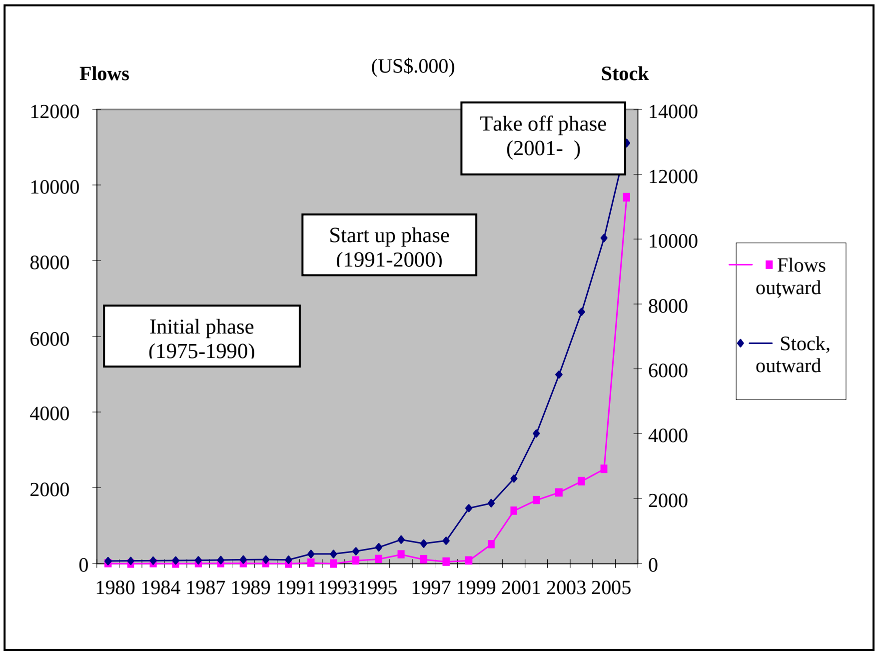
[6] It should be noted that OFDI numbers from developing countries are likely to be under-reported. Some countries do not identify FDI outflows at all, others only recently started measuring/ reporting OFDI. Moreover, flows are often under-valued as official statistics do not always include financing and reinvested components of OFDI. Finally, statistics are often based on reporting from large corporations and thus do not include SME OFDI (Aykut and Goldstein, 2006; 87).

[7] In spite of the rapid growth in Indian OFDI, it should be noted that Indian FDI remains modest in a global perspective: 1. As a share of global FDI, India is still a small player. India was only number 20 in the list of emerging market investors in terms of stock in 2005 (UNCTAD, 2006) and in 2006 it had only moved to number 15 (UNCTAD 2007); 2. According to UNCTAD's transnationality index, only few Indian MNCs are highly internationalized (UNCTAD, 2007); 3. Only one Indian company (ONGC) was on UNCTAD's list of the 100 largest developing country TNCs in 2006 (UNCTAD, 2006; 130); 4. Compared to the other BRIC countries China and Russia, India is placed low on UNCTAD's outward performance index (UNCTAD, 2007).

Figure 2 Outward FDI from India 1980-2006



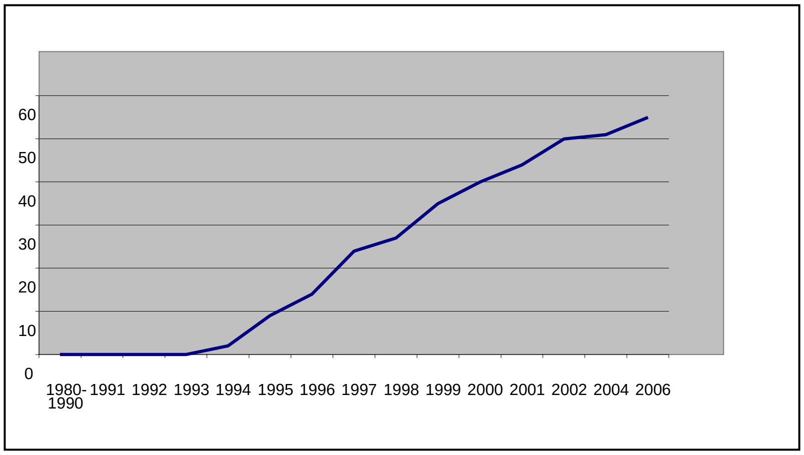
Source: UNCTAD, 2007

In the initial phase of Indian OFDI, OFDI polices were highly restrictive as OFDI was seen as a diversion from national development priorities. Starting in 1969, Indian guidelines for OFDI stated that OFDI should be export-supportive, and the equity contribution should be in the form of exports of machinery, equipment, and know-how (Pradhan, 2003). Moreover, OFDI should be in the form of Indian minority participation to save Indian currency and capital (Agrawal, 1981). In practice, OFDI was restricted further due to extremely slow and difficult approval procedures. Also more general industrial polices had implications for OFDI: for instance, antitrust legislation may have pushed large Indian conglomerates into OFDI, as there were no more opportunities for growth at home (Wells; 1981). Finally, OFDI was mainly seen as part of South-South economic and political co-operation.

The start up phase (1991-2000)

During the OFDI start up phase, the level of OFDI gradually increased. Larger proportions of investments were made in the service sector, and investments became increasingly oriented toward developed countries (Pradhan, 2005). The backdrop to the growing OFDI was profound liberalizations of the Indian investment regime:

Figure 3 Number of bilateral investment treaties between India and other countries, cumulative



Source: UNCTAD, 2007

The restrictive OFDI policy of the 1970s and 1980s changed with the reforms that were initiated in the wake of the New Industrial Policy in 1991. The government instituted automatic approval procedures for OFDI under thresh-holds that were gradually raised during the period, from $ 2 million to $100 million (Sauvant, 2005). A number of constraints and restrictions on outward FDI were furthermore lifted. The curbs on equity participation were removed, and the approval system was made speedier and more transparent (UNCTAD, 2004). During this period, the number of bilateral investment treaties between India and other countries grew from no treaties to more than 40 treaties, and India engaged in various regional trade agreements, in which FDI was an important component. Among these regional trade and investment agreements was the Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMSTEC), China-India Free Trade Agreement, South Asia Free Trade Area (SAFTA), the Indian Ocean Rim Association for Regional Cooperation, the Indo-Lanka Free Trade Agreement, and the ASEAN-India FTA (UNCTAD, 2004).

While there, as mentioned, had been waves of Indian OFDI in the 1980s, the ODFI of the 1990s was larger and more durable and included more industries and a broader selection of developing countries. Thus, the level of investment increased from on average $5 million a year before 1991 to $132 million after 1991 and the stock of OFDI rose from on average $95 million in 1980-1990 to $720 million from 1991-2000. The total number of approved OFDI projects was 2562 in the 1990s, almost 11 times more than the number of projects approved 1975–90 (Pradhan, 2005).

In terms of location, a very significant shift took place as well. While 86 % of OFDI previously went to developing countries, this share fell to app. 40% during this period. Among the developed countries it was particularly the United Kingdom and the United States that dominated (UNCTAD, 2004).

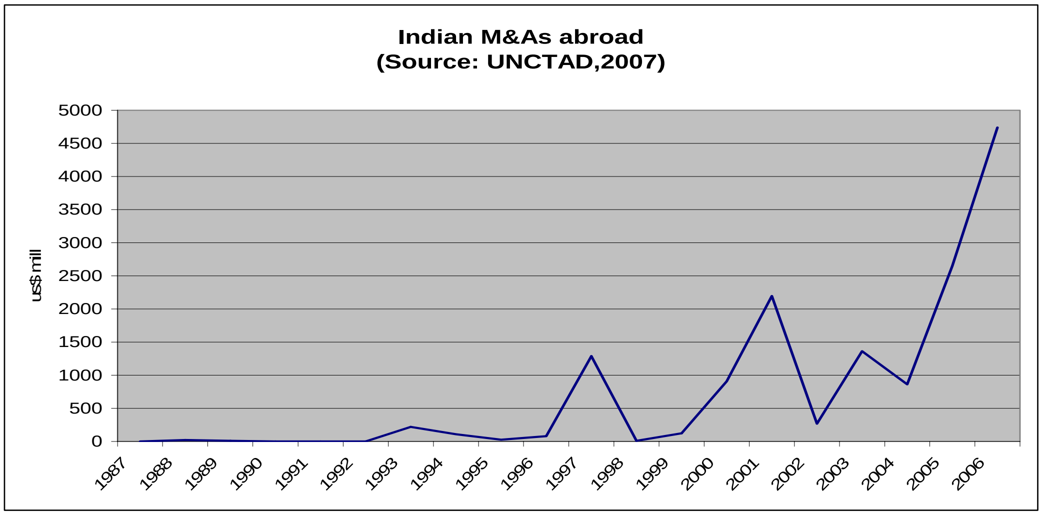
During the start-up phase, a very significant movement from manufacturing to services took place, in which manufacturing accounted for 65% of equity and services for 33%; this relation had almost been reversed in the period between 1991 and 2000, so that services now accounted for 59% and manufacturing for 39%.

Investors in this phase of Indian OFDI went from the escape and simple market-seeking investments of the initial OFDI-phase to increasingly advanced market-seeking strategies, where firms were moving into developed countries to access markets and to access strategic assets in these countries.

The take-off phase (2001-)

As argued, we can see the contours of a third phase of Indian OFDI. From 2001, and certainly from 2003, we have seen a notable surge in Indian OFDI; OFDI has increased more than five times from 2001- 2006 whereas inflows increased only about two and a half times, and alone between 2005 and 2006 there was a 150% increase.

Figure 4 Indian M&As abroad



Source: UNCTAD, 2007

The latest surge in FDI has to a large extent been driven by M&As. Where 37 M&As were made in 2001, by 2006 this number had increased to more than 170; in particular from 2005, M&As gained momentum, increasing from 70 to 150 (Assocham, 2007). Many of the recent deals were so-called ‘mega deals‘, for instance Mittal’s acquisition of Arcelor in 2006[8]. The M&A strategies are particularly popular in the pharmaceutical and the software industries (UNCTAD, 2005), and typically it is large firms that undertake such deals, although some software M&As have been made by SMEs[9].

In terms of sectors, non-financial services (which include IT) overtook manufacturing in the late 1990s, and although manufacturing in recent years has overtaken services again, services remain important. The service-internationalizers include old houses that have diversified into software and IT (e.g. Tata Consulting Services, Satyam and Wipro Technologies). Others are new start ups within the software industry (e.g. Infosys and PCS) (Khanna et al, 2005). Among the examples of business process outsourcing and back office internationalizers, we can mention that Daksh Services, India’s largest BPO company, has established a facility in the Philippines; that MsourcE in 2003 invested in building a language center in Tijuana, Mexico; that Datamatics

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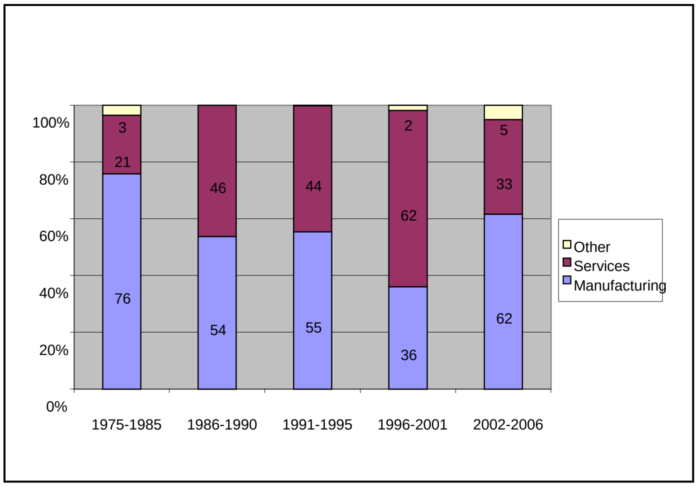
[8] Of course it can be debated whether Mittal is Indian. The firm was founded in Indonesia in 1976 by an Indian entrepreneur. The current owner, Lakshmi Mittal, today controls 88 per cent of the company. He is an Indian citizen living in London and the company is listed in Amsterdam and New York.

[9] E.g. Aftek Infosys Ltd., Datamatics Technosoft Ltd., KLG Systel Ltd., Leading Edge Infotech Ltd., Moschip Semiconductor Technology Ltd. etc.

Technologies acquired CorPay Solutions (United States) in 2003; that Hinduja TMT Ltd took over the Philippine call centre c3, in 2003; and that HCL Technologies has increased its investment in Belfast (UNCTAD, 2004). Many of the OFDIs in services are supportive of export. Thus, OFDI by Indian IT and consultant firms is typically a way to expand from their traditional outsourcing base into developed countries to tailor their services to clients and to improve sales efforts[10].

Figure 5 Sector composition of Indian outward FDI



Source: Reserve Bank of India, 2006

In the take-off phase, natural resource-based investors have also started internationalizing in earnest, e.g. the chemical and steel industry acquiring upstream activities in Canada and Australia, or energy firms engaging in acquisitions of assets in exploration, refining and retailing (UNCTAD, 2006). Among the better known examples **Sector composition of Indian outward FDI** are the acquisition of oil and gas fields in Sudan and Russia by the Oil and Natural Gas Commission Ltd. (ONGC), the US$ 3 billion acquisition in Iran by Indian Oil Corporation (Sauvant, 2005), or the acquisitions of copper mines in Australia by Hindalco (UNCTAD, 2004). The exceptionally high growth rates of India have revealed its vulnerability to energy shortages and a paramount development priority for the Indian government has become to acquire natural resource assets. The Indian government has, consequently, pushed for its energy firms (which are partly state-owned) to gain licences and permits for resource exploitation (Aykut and Goldstein, 2006).

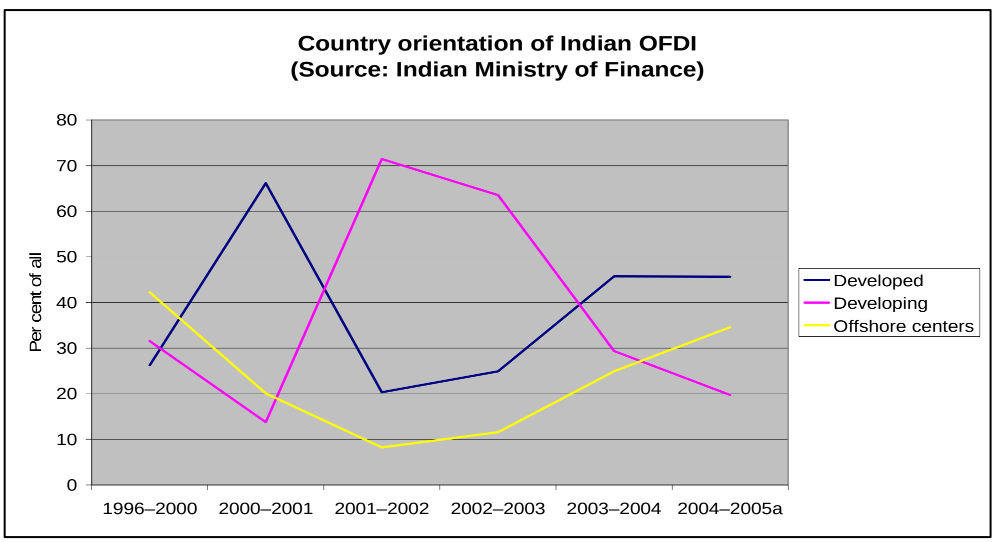
In the ‘start-up’ OFDI phase, developed countries took over as the dominant destination for FDI. However, in 2001 and 2002, FDI in developing countries surged and lead to developing country FDI become leading again, largely explained with a few spectacular natural resource investments in Russia in 2001 and Sudan in 2002. By 2003, FDI in developed countries was dominant again, mainly due to the large M&As discussed above. Also, FDI in offshore centers such as Mauritius,

[10] Examples of such firms are Tata Consultancy, Infosys Technologies, Wipro, Birlasoft, Daksh eServices and Datamatics Technologies (Sauvant, 2005; 668).

Virgin Islands and Bermuda has gained in importance during the 'take-off' phase. Whether these are in fact platforms for investments in developed or developing countries is unclear; there is some indication that investments in the off-shore center Mauritius may conceal investments in Africa, as Mauritius is a member of COMESA (the African trade block). Apart from the resource seeking investments in Africa, Indian investment in developing countries has increasingly been directed towards the most advanced developing countries, that is Hong Kong and Singapore.

While the latest surge in FDI has investors of market, resource, and efficiency seeking types, it is evident that Indian firms are increasingly investing abroad to get access to and acquire firm-specific assets and intangibles, such as technology, skills, and marketing expertise. Sometimes these acquisitions are part of Indian MNCs' attempt to further expand their strong competitive position into new markets, while they in other cases are attempts to compensate for relatively weak ownership advantages (except for a strong financial standing) by acquiring technologies, brands, and human resources abroad (Pradhan, 2003). These strategic asset-seeking investments partly take place through acquisitions, such as Wipro's buy of Nerve Wire Inc. (United States), I-Flex's acquisition of Supersolutions Corp. (United States) and Reliance Infocomm's acquisition of Flag Telecom (United Kingdom). But they can also take place through investments in green field R&D facilities in locations with clusters of talent and related firms, for instance Tata Consultancy's investment in development centres in China and the United States (Sauvant, 2005). It is not just human and technological assets that Indian firms seek to buy into through OFDI. In their effort to build new brand names or consolidate existing brands, a number of Indian firms have engaged in highly proliferated acquisitions abroad, including Tata Motors' acquisition of Daewoo (Korea) in 2003, Infosys' acquisition of Expert Information Services Pty. Ltd (Australia) in 2003, the acquisition of RPG Aventis (France) by Ranbaxy Technologies', Tata Tea's acquisition of Tetley Tea (UK) in 2000, or Tata Steels' take over of the Corus group in 2007.

Figure 6 Country orientation of Indian OFDI



Source: Indian Ministry of Finance

The ‘take-off’ phase’s surge in OFDI took place against the backdrop of continued liberalization. A number of new measures further facilitated OFDI: By 2004, the Indian government allowed companies to make OFDI up to 100% of their net worth, while it was previously 25%. Moreover, the previous $100 million ceiling was lifted. The commitment to OFDI was confirmed at the highest political level in 2004 by the then PM: *"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"*[11]. Also PM Manmohan Singh has actively expressed his support for Indian firms to go global. *“All our firms, be they in the public sector or the private sector, must become more competitive so that they can face increased competition with success from abroad … many Indian firms today do have the managerial leadership to go global and compete at the global level … we need to understand how we can replicate such success stories so that more and more India firms go global”*[12].

In fact, India had little choice but to liberalize its OFDI regime. Restrictions on OFDI face two problems in an open economy: One is that individual firms may have adequate capital even if the government faces foreign currency constraints. In this situation, OFDI restrictions may restrict corporate expansion strategies that otherwise would be viable. The other is that OFDI is increasingly required to build and sustain competitive advantage in an open economy, as domestic producers would otherwise be at a disadvantage vis-à-vis foreign firms. The opening of OFDI regimes has helped Indian firms acquire a portfolio of assets and gain experiences that have enabled them to face the growing competition in the Indian market and become global companies in their own right (Sauvant, 2005; 642).

While India definitely has opened up, there has been very little active promotion of OFDI. India has mainly pursued an ‘Open Door Policy’, as opposed to the ‘Selective Targeting Policy’ which is known from East and South East Asian countries (Altenburg, 2000). There are few signs that India is adopting anything resembling Chinas "Go Global" policy, where the government, among other things, has set up a $200 billion wealth fund to promote foreign investment (including direct). Instead India has moved incrementally from highly inward-looking policies with strong restrictions on internationalization, to liberalization of external trade and investment regulation. India has not (yet) actively promoted OFDI through e.g. support for OFDI, information about investment opportunities, political insurance schemes, or even financial subsidies such as loan financing (Sauvant, 2005).

[11] Quoted from UNCTAD (2004).

[12] Quoted from Sauvant (2005).

Table 1 Phases in Indian Outward FDI

Phases in Indian Outward FDI			
	Initial phase	**Start up phase**	**Take off phase**
Amount	Low OFDI	Rising OFDI	Surge in OFDI
Location	Neighboring developing countries	Increasingly developed countries	Developed countries, but key resource seeking investments in developing countries
Mode	Joint ventures, minority	Greenfield investments, majority owned joint ventures	M&As, greenfield investments
Industries	Manufacturing	Manufacturing declining, rapid growth in services	All sectors, manufacturing and natural resource rising
Motives	Simple market and natural resource. Escape investments	Market seeking, Efficiency seeking. Beginning strategic asset seeking	All, but strategic asset seeking very important Highly integrated investments
O advantages	Scaled down technology and low cost business models	Increasingly strong O-advantages, in particular in services	World class advantages in growing number of service and manufacturing firms
OFDI regime	Highly restrictive	Gradual liberalization of OFDI regime	Open door policy, beginning OFDI promotion

Explaining the Indian OFDI path

Puzzles of the Indian OFDI path

When we contrast the Indian OFDI path with the predictions of received OFDI theories, at least three (interrelated) ‘anomalies’ become evident: The first concerns the level of OFDI relative to inward FDI. The second concerns the destination of OFDI. The third concerns the motives of Indian investors for going abroad.

The early rise in Indian outward investment

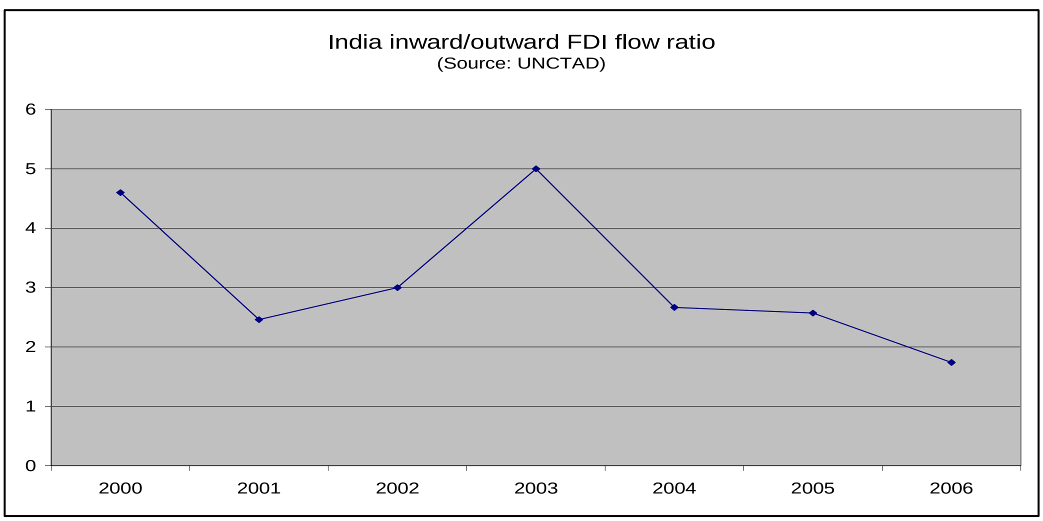
The initial phase of Indian OFDI was largely consistent with the predictions of the IDP. Between 1975 and 1991, India was a Stage 2 country, having started to develop a sizable home market and offering un-differentiated cost advantages. OFDI was limited, and to the extent that it took place it was in Stage 1 or 2 countries and based on technologies adapted to developing country conditions. After liberalization in 1991, India has increasingly developed more differentiated advantages, e.g. in IT, software, pharmaceuticals, engineering, and manufacturing. According to the ‘normal’ IDP sequence of investments, India would first experience a rapid increase in inward

FDI, partly by efficiency-seeking investors exploiting the increasingly differentiated Indian advantages, partly by market-seekers exploiting market potentials. Only then, we would see gradually growing outward FDI, as internationally competitive local industries evolved. But in the case of India, inward and outward FDI 'take-off' has been more or less simultaneous. In fact, while there has been a slow growth in Indian inward FDI in recent years, outward investment has soared. From 2001-2006, Indian OFDI grew more than five times, while inward investment in the same period only grew 2½ times. And while India ranked 56 on UNCTAD's OFDI performance index in 2006, it ranked 113 on the IFDI performance index (UNCTAD, 2007). As a consequence, the inward/ outward FDI flow ratio of India declined rapidly during the 2000s. It is even predicted that Indian OFDI will continue to grow and, at 15 billion in 2007, eclipse IFDI (Assocham , 2007)[13].

The strong developed country orientation

The initial Indian OFDI was made in developing countries as predicted by theory, e.g. in Sri Lanka, Malaysia or Nepal. When embarking on OFDI, Indian firms took advantage of their particular business models, adapted to developing country market and factor conditions. Soon after liberalization in 1991, Indian MNCs grew out of their immediate regional context and, rapidly, developed countries became the main OFDI destination. Moreover, among those investments taking place in developing countries, the Indian OFDI converged on advanced developing countries such as Hong Kong or Singapore. The quick orientation towards advanced markets is puzzling given the fact that we would expect particularly high entry barriers in such markets for firms coming from a development context.

Figure 7 Indian inward/outward FDI flow ratio



Source: UNCTAD

[13] The unusual Indian path has not been missed in the Indian debate, not even at the highest political level. In a speech in the US, the Indian Minister of Finance said that "*I am aware of the so-called Investment Development Path (IDP) theory. According to that theory, in the initial stages of development, a country receives FDI flows. Once a country reaches a certain level of development, outward investment takes place. I do not know if India's current level of development and Indian companies' outward orientation fit in with that theory. Till 2005-06, Indian firms' outward investment was very modest. In that year, the outward investment was US $ 2.9 billion. In the next year, 2006-07, it shot up to US $ 11.0 billion. FDI flows into India also shot up to a new high of nearly US $ 20.0 billion in 2006-07. The two stages of accelerated FDI inflows and accelerated FDI outflows appear to have converged in India, marking a break with the conventional IDP theory*" (Address by Mr. P. Chidambaram, Finance Minister at the Wharton School, University of Pennsylvania on September 26, 2007).

The importance of strategic asset seeking investments

Traditionally, Indian firms invested abroad due to various pull factors (market and natural resource seeking) and push factors (e.g. to escape restrictive domestic regulations such as labour laws, licensing requirements and antitrust regulation and circumvent the limited market demand in India) (UNCTAD, 2004; 9). These motivations were in accordance with the predictions of the TWMNC theory. However, Indian MNCs have, much earlier than expected, moved into more complex types of investments. Thus, current Indian OFDI is to a large extent aimed at accessing strategic assets in foreign locations, mainly developed countries, through M&As and green field investments. The strategic asset seeking investors are partly firms seeking complementary assets abroad as growing exposure to western MNCs erode their O-advantages at home, partly firms that want to circumvent entry barriers in marketing and distribution in developed countries by acquiring brands, distribution, and marketing systems.

What explains the particular Indian OFDI path?

The Indian OFDI has deviated substantially from the 'normal' OFDI path of developing countries by moving massively into OFDI, even before IFDI take-off, by moving into advanced countries rather than developing countries, and by going for strategic assets rather than resources and markets. So how do we account for these deviations from the expected path? Here, we will focus on four possible explanations for the particular Indian OFDI path: The first has to do with the industry structure of the Indian economy; the second has to do with the nature of inward investment in India. The third has to do with firm structure in India. The fourth has to do with the institutional context in which OFDI in India takes place. The offered explanations are of course tentative and would need to be explored further through more formal testing.

The unique composition of Indian industry

According to theory, we would expect OFDI from developing countries to be first in manufacturing and only later in service industries. This is partly because service industries are correlated with advanced economies, partly because service industries typically are late internationalizers (UNCTAD, 2004b). However, in the case of India we find that non-financial services became the dominant outward investor at a very early stage in the IDP, exceeding manufacturing in the second half of the 1990s. This is obviously related to the particular Indian industry structure with services playing a relatively large role. For instance, services accounts for 52% of output in India but 30% of output in China. Conversely, manufacturing accounts for 39% in China but 16% in India (Winthers & Yusuf, 2007). Moreover, and related to the above, whereas India, as opposed to China, never succeeded in developing a sizable manufacturing export industry and attracting large scale investments within efficiency-seeking manufacturing industries (apart from textiles and a few other industries), Indian service exports have been relatively important[14], although, as we shall see, these were not accompanied by large inflows of FDI.

The strong service orientation of the Indian economy may explain why India has a relatively strong standing in services OFDI. But more importantly, it may explain the early rise in OFDI. The IT and software industry may start its internationalization and, thus, OFDI earlier and at a

[14] While China exports 7 times as much as India, the service export of the two countries is not that different ($62 billion versus$51 billion) (Winthers & Yusuf, 2007).

more accelerated speed than manufacturing. The quick sequence into OFDI is partly due to the fact that this industry is a 'born global' industry in terms of both markets and factor inputs, partly because capital plays a smaller role than in most other global industries (Khanna and Palepu, 2004). Thus, the usual inertness in relation to internationalization and OFDI are relatively absent in the IT and software industry.

The inward investment path of India

Traditionally, inward FDI has been seen as a primary avenue through which developing country firms could access global value chains and upgrade their technological and human resource capabilities. Through the creation of linkages between MNCs and local firms, IFDI would help domestic industry become international and eventually embark on OFDI (Altenburg, 2000; Scott-Kennel and Endevick, 2005). However, in the case of India there was never a surge in inward FDI which could help build internationally competitive industries. When India, nevertheless, succeeded in building strong advantages in certain industries, it is of course partly due to indigenous accumulation of skills and capital in certain sectors. But it could also be due to the fact that there actually were very strong linkages between Indian firms and foreign MNCs, however, these linkages were in the form of outsourcing collaborations rather than with foreign investors located in India. Though outsourcing collaborations, Indian IT, engineering, and consultancy firms have build O-advantages that relatively fast became platforms for internationalization. As argued by UNCTAD (2004), "*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*" (UNCTAD, 2004;7).

The particular Indian firm structure

A characteristic of the Indian industry structure is the prominent position of large 'houses' or conglomerates. The dominance of such organizations challenges conventional western management thinking, which would argue that firms should focus on their core competencies and shed non-core activities (Hamel and Prahalad, 1990). Several authors, (Khanna and Palepu, 1997; Peng, 2002; Nielsen, 2005) argue that such organizations, given the institutional context of emerging markets, may indeed be efficient as they, more effectively than focused companies, can overcome market and institutional failures[15]. In continuation of this, it has been argued that there is a link between the prevalence of conglomerates and OFDI (see e.g. Morck, 2005; Aykut and Goldstein, 2006). And large houses such as Tata, Birla Kirloskar, Mahindra, T.V. Sundaram Group, Mafatlal, Mahindra, Bajaj, Singhania, Walchand, Mittal etc. do play a pivotal role in Indian OFDI, e.g. in relation to the huge M&As in recent years. In other words, the old industrial structure of India displays a remarkable resilience also when it comes to OFDI.

But what may the advantages of such houses be in relation to OFDI? First, it could be hypothesized that large houses function as effective internal capital markets that can be used to

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[15] The market failures are for instance: 1. Brands are difficult to build due to lack of credible information. Conglomerates can overcome these problems by applying brands across product categories; 2. Raising capital is difficult. In capital markets, credible information is difficult to obtain due to the lack of a critical press and failure of a judicial system that can hold mis-informers liable. Thus, investment will be below optimal. Conglomerates can internalize market intelligence and ensure cross-subsidization; 3. Lack of trained personnel: In labor markets, there is lack of vocational and business training and it is difficult to fire people when restructuring takes place. Being a conglomerate allows a company to establish its own schools and training facilities and to find employment to people that have become redundant due to restructuring; 4. High cost of political influence: The high costs of interacting with regulators and politicians, may give large conglomerates an advantage (Khanna and Palepu, 2007).

subsidize OFDI (Buckley et al, 2007). Second, large conglomerates offer opportunities to move people between different divisions, e.g. managers with international experience or key technical personnel. Third, as the fixed costs of access to government officials needed to support OFDI may be very high, conglomerates may have an edge vis-à-vis SMEs. Finally, as the Indian economy has opened up, the need to internationalize to acquire assets abroad may have been particularly pressing for conglomerates as these companies, having grown out of decades of ISI policies, were ridden with un-competitive technologies, products, organizations, and practices (UNCTAD, 2006;156). Although conglomerates have been at the forefront in terms of moving abroad, it is still an open question whether they have the necessary management and organization capabilities to make their foreign acquisitions sustainable in the long run!

The Indian polices and regulations for OFDI

The institutional strategy literature has argued that the particular institutional fabric of developing countries has huge implications for firm strategy (see e.g. Khanna and Palepu, 1997; Peng, 2002; Hoskisson et al, 2000). In line with this, it has been argued that the institutional view can be employed to explain OFDI behavior of developing country firms (see e.g. Buckley et al, 2007). Indirectly, institutions of a given country may affect OFDI patterns by shaping the development of firm specific O-advantages and/or firm structures that may be conducive or inhibiting of OFDI. But more directly, institutions may impact OFDI through those set up specifically to regulate OFDI. On the one hand, the state can restrict OFDI through currency and capital transfer rules, ownership requirements, sector reservations, and, in general, making approval procedures slow and burdensome, etc. On the other hand, the state may offer foreign investors privileged access to information, foreign currency, capital, expertise, etc. Such support may help the MNC from developing countries off-set some of their inherent disadvantages vis-à-vis western MNCs (Aggarwal and Agmon, 1990).

Several authors trace the OFDI pattern of India back to Indian policies and regulations (see e.g. Sauvant, 2005; Pradhan 2005; Dige Pedersen, 2007). Thus, the changes in Indian OFDI have taken place largely in conjunction with profound changes in Indian OFDI regulation (UNCTAD, 2006; 145). Originally, the government of India viewed deployment of human, physical, and financial assets abroad as a problem, as a drainage of domestic resources. Consequently, stringent OFDI regulation severely restricted OFDI from India, resulting in very low OFDI. During the 1990s, the attitude toward OFDI changed. Growing surpluses in foreign reserves made the Indian government relax restrictions on OFDI. More broadly, OFDI was increasingly seen by the government and elite as a means for India to assert its position in the global economy[16] and enhance the competitiveness of the Indian industry. Thus, the 1990s' growth in OFDI can to a large extent be understood as a result of the gradual liberalization of the OFDI regime. The most recent OFDI take-off, may partly be explained by the fact that India, by 2003, opened its OFDI regime more or less completely, thus, releasing a pent up 'demand' for OFDI. Moreover, it can be argued that the de facto barriers (formal and informal) to OFDI from India today are much smaller than the de facto barriers to inward investment. This may help explain the un-usual sequence in outward and inward flows in India. In that sense, the IDP of India resembles that of

[16] It thus appears that the Indian elites have arrived at the conclusion that to assert its moral and political standing in the world, India needs to become economically strong through globalization. Outward investment could be seen as a key ingredient in India's globalization strategy (Alamgir, 2005).

Japan, where de facto, if not de jure, inward restrictions remain strong, while restrictions on outward investment are removed, setting the protected domestic industry free to internationalize.

Indian policies and regulations mat also in a broader sense have affected OFDI. Thus, Indian industrialization strategy may have helped Indian firms build O-advantages that have formed basis for their internationalization. As already mentioned, conglomerates may have enjoyed government patronage and support. Due to their privileged home market position, they may have been able to earn rents that could finance OFDI. Moreover, dedicated investment in education and skill formation and the promotion of research and technology by the Indian government, in combination with a lax patent system that allowed Indian firms to engage in reverse engineering, all facilitated the development of strong Indian positions in knowledge-intensive industries like engineering, software, and pharmaceuticals that provided the basis for a quick transition into OFDI (Pradhan, 2003). Finally, the relatively well functioning Indian financial markets, and, in particular, the existence of a vibrant stock market, has lead to huge increases in the valuation of Indian firms, which have enabled these firms to raise large amounts of equity capital and to borrow money at home and abroad. This capital has, inter alia, been used for a 'spending spree' abroad. The high profit rates of foreign subsidiaries of Indian MNCs may further have facilitated OFDI; in recent years we see how re-invested earnings are becoming the main component in financing FDI (Sauvant, 2005; 668).

Conclusion

The rise of MNCs from developing countries such as China, India, Mexico, Korea, Singapore, Malaysia, and Taiwan is a highly fascinating phenomenon, indicating that profound shifts in the globalization process are underway. This paper examined this phenomenon by looking into the Indian experience. We noted that the Indian OFDI path challenges a number of the orthodoxies of the received literature on OFDI from developing countries:

- While OFDI from developing countries traditionally has followed large inflows of FDI, this was not the case in India;
- While OFDI from developing countries traditionally has taken place in other developing countries, Indian OFDI is converging on advanced economies;
- While OFDI from developing countries traditionally has been in manufacturing and resource extraction, Indian outward FDI is driven by services;
- While O-advantages of developing country MNCs traditionally have been in mature technologies and industries, many Indian MNCs have their advantages in technologically cutting-edge industries such as IT and pharmaceuticals;
- While developing country MNCs traditionally have been simple market- and resource-seeking, learning and asset acquisition seem to be central motivating factors behind current Indian outward investment.

These observations force us to revisit received theory of OFDI from developing countries. Evidently, India has succeeded in not only speeding up but also short-circuiting the IDP sequence. One explanation could be that Indian firms have been able to build strong O-advantages, partly by linking up to, and learn from foreign firms through arms-length collaborations. The O-advantages build through outsourcing are now one of the cornerstones of

Indian OFDI. Thus, the experience of India suggests that inward FDI need not be a precursor for outward FDI. Consequently, the IDP needs to pay much closer attention to the role of non-equity linkages in forming O-advantages of local industry and moving a country forward in the IDP. Another explanation is related to government policy, which has strongly influenced the OFDI sequence, first, by holding up the forward movement of the IDP by severely restricting inward and outward FDI, and, later, by liberalizing investment regimes, thereby providing the conditions for OFDI take-off. One implication of the observed strong government imprint on OFDI is that we need to pay very close attention to government policies, when explaining the IDP sequence of a given country. Apart from the pivotal role played by direct OFDI regulation, the Indian case also illustrates how broader institutions can shape OFDI patterns. For instance, while large conglomerates in other institutional contexts may be dinosaurs, slowing down and resisting internationalization, they may in the particular context of OFDI from India actually have been an advantage. This is due to the fact that large conglomerates have the opportunity to generate internal resources in support of OFDI and because they can access government support for their internationalization process more easily. A final explanation on the particular Indian OFDI path may be related to the strong position of services in the Indian economy. It seems that the Indian advantage in knowledge-intensive service activities has enabled a relatively fast sequence toward OFDI in advanced countries and activities. Indeed, the Indian experience suggests that an economy basing its wealth on knowledge-intensive services rather than manufacturing or natural resources may be relatively well positioned to exploit the opportunities provided by globalization.

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