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Research Report

Investing abroad: Why Indian firms should forge ahead and how the government can help

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Investing abroad: Why Indian firms should forge ahead and how the government can help

by

Priyanka Kher*

Outward FDI (OFDI) by firms from developing countries has grown and is expected to continue doing so. [OFDI from India](#) has averaged about US\$13.5 billion over the past five years. Last year registered a [decline](#) in outflows over the previous year—likely driven by global economic conditions. India is amongst the [top 20 home countries](#), up from the 25th position in 2021.

The country's OFDI has strong prospects. The [gradual liberalization](#) of OFDI rules, a cautious approach of developed country firms following the financial crisis and geo-political uncertainties have created opportunities for Indian firms to invest overseas. Yet, in relative terms, India's OFDI is limited compared to China's and Brazil's OFDI, the 3rd and 14th largest home countries, respectively.

Key questions are: Does OFDI make sense for India? What are the opportunities? What should be the policy priorities?

Does OFDI make sense for India? Countries—both developed and developing—have used OFDI for the benefit of their own economies. Some countries have used it to acquire assets (such as technology, brand names), others to learn and leverage resources from host countries and yet others to benefit from their understanding of institutional disadvantages in new markets. The literature provides evidence on the [positive home country effects](#) of OFDI from [developing countries in](#) terms of financial returns, productivity, innovation, exports, domestic investment, and jobs.

What are the opportunities? Indian OFDI was largely in low technology manufacturing sectors in developing countries in the 1990s (leveraging labor, costs and resources in host countries) and services sectors in developed countries post 1990s. Since then, Indian firms have engaged in more strategic acquisitions involving specific product development capabilities (e.g., Jubilant Life Sciences' majority acquisition of US-based Trinity Labs and Target Research Associates; Tata's acquisition of Jaguar Land Rover) to serve international markets. With the changing nature of business and technology (e.g., the B2C services sectors) and India's own development needs (including improving its firms' competitiveness), Indian firms now need to target all three—strategic assets, resources, new markets.

India's government has adopted several policies to boost manufacturing under its "[Make in India](#)" initiative. One aspect that can be explored further is OFDI which, for Indian firms, is a more efficient way of acquiring new capabilities than purely domestic efforts, especially in such knowledge-intensive manufacturing sectors as semiconductors, aerospace and renewables components.

Further, OFDI can enable access to resources (renewable energy, mining), and to markets in services (IT, telecom) and other manufacturing sectors (agro-processing, consumer goods, pharmaceuticals, automotives). Initiatives in critical minerals have recently been taken in regard to [Latin America](#), through state owned KABIL; but more can be done leveraging, for example, the [Mineral Security Partnership](#).

Opportunities beckon also in Africa, driven by the government's [Kampala Principles](#). Market diversification and access to raw materials (including critical minerals) make Africa an essential partner for India's growth. India has been a large exporter to the continent and has, over the past decade, also become one of its top investors. Agriculture, infrastructure, renewables, IT, healthcare, and pharmaceuticals are potential areas for further collaboration. In fact, Indian firms have [recently pledged](#) about US\$14 billion worth of investment in Nigeria alone, while announcements worth US\$22.2 billion of FDI into Africa were made in 2022. The [Confederation of Indian Industry](#) has urged the country's firms to increase their FDI in Africa to US\$150 billion by 2030.

What should be the policy priorities? India has gradually put in place some OFDI measures; for example, the Exim Bank and Export Credit Guarantee Corporation provide financing solutions and insurance, and OFDI rules have recently been liberalized. There is a wider [range of measures](#) the [government](#) can consider. Keeping with India's gradual approach, the following soft facilitation measures (while evaluating fiscal or financial measures based on a robust cost-benefit assessment) could be considered:

- Adopting an OFDI strategy linked to India's national development objectives, supporting the creation of Indian firms-led value chains. Such a strategy should clarify OFDI priority

sectors and locations.

- Providing clarity on the institutional framework and related funding that will steer the agenda, namely the role of ministries and government departments, trade finance agencies, investment promotion agencies, and industry associations. Specifically, a lead agency, coordinating OFDI, can better organize the government's efforts.
- Bridging information asymmetry by providing interested investors with host country specific information on the investment climate, political environment and business opportunities in various sectors. Business matchmaking databases for priority countries and sectors can also help.
- Capacity building (educational workshops on OFDI) can especially benefit SMEs.
- De-risking investment, including by revisiting the international investment agreements program, taking into account India's interests both as a home and host country. [Consideration](#) should also be given to joining the [WTO's Investment Facilitation for Development Agreement](#) which focuses on improving transparency and administrative streamlining.

This is an opportune time for Indian firms to strengthen their international competitiveness through OFDI and for India to benefit from it. Strategic support from the government would hold great value for India for further leveraging FDI for its development.

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