

Kher, Priyanka

Research Report

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

Columbia FDI Perspectives, No. 387

Provided in Cooperation with:

Columbia Center on Sustainable Investment (CCSI) - A joint center of Columbia Law School and the Earth Institute, Columbia University

Suggested Citation: Kher, Priyanka (2024) : Investing abroad: Why Indian firms should forge ahead and how the government can help, Columbia FDI Perspectives, No. 387, Columbia University, Columbia Center on Sustainable Investment (CCSI), New York, NY

This Version is available at:

<https://hdl.handle.net/10419/300561>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



Columbia FDI Perspectives

Perspectives on topical foreign direct investment issues

Editor-in-Chief: Karl P. Sauvant (Karl.Sauvant@law.columbia.edu)

Managing Editor: Chioma Menankiti (clm2249@columbia.edu)

The Columbia FDI Perspectives are a forum for public debate. The views expressed by the authors do not reflect the opinions of CCSI or our partners and supporters.

No. 387 July 8, 2024

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, automobiles). 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.

* Priyanka Kher (pkher@worldbank.org) is a Senior Private Sector Development Specialist at the World Bank Group. The views expressed are the author's own. The author wishes to thank Jan Knoerich, Premila Nazareth and Dushyant Thakor for their helpful peer reviews.

The material in this Perspective may be reprinted if accompanied by the following acknowledgment: "Priyanka Kher, 'Investing abroad: Why Indian firms should forge ahead and how the government can help?,' Columbia FDI Perspectives, No. 387, July 8, 2024. Reprinted with permission from the Columbia Center on Sustainable Investment (<http://ccsi.columbia.edu>)." A copy should kindly be sent to the Columbia Center on Sustainable Investment at ccsi@law.columbia.edu.

For further information, including information regarding submission to the *Perspectives*, please contact: Columbia Center on Sustainable Investment, Chioma Menankiti, at clm2249@columbia.edu.

The Columbia Center on Sustainable Investment (CCSI), a joint center of Columbia Law School and Columbia Climate School at Columbia University, is a leading applied research center and forum dedicated to the study, practice and discussion of sustainable international investment. Our mission is to develop and disseminate practical approaches and solutions, as well as to analyze topical policy-oriented issues, in order to maximize the impact of international investment for sustainable development. The Center undertakes its mission through interdisciplinary research,

advisory projects, multi-stakeholder dialogue, educational programs, and the development of resources and tools. For more information, visit us at <http://ccsi.columbia.edu>.

Most recent Columbia FDI Perspectives

- No. 386, Charles-Emmanuel Côté, Shotaro Hamamoto, Marcin J. Menkes, and Xu Qian, ‘[The growing interest for joint interpretations of investment treaties by state parties](#),’ *Columbia FDI Perspectives*, June 24, 2024
- No. 385, Daniel Gerkin and Michelle Weinbaum, ‘[Passive financing in the crosshairs: CFIUS intensifies focus on limited partners in covered private equity transactions](#),’ *Columbia FDI Perspectives*, June 10, 2024
- No. 384, Rodrigo Polanco, ‘[Limited home state measures in the WTO Investment Facilitation for Development Agreement: a missed opportunity or a starting point](#),’ *Columbia FDI Perspectives*, May 27, 2024
- No. 383, Andrea Shemberg, ‘[Recognizing the state’s “duty to regulate”: the mindset needs to shift](#),’ *Columbia FDI Perspectives*, May 13, 2024
- No. 382, Laurie Achtouk-Spivak and Robert Garden, ‘[The revised OECD Guidelines: a strengthened forum for resolving ESG disputes](#),’ *Columbia FDI Perspectives*, April 29, 2024