The Rise of Indian Multinationals

Edited by

Karl P. Sauvant and
Jaya Prakash Pradhan,

with

Ayesha Chatterjee and
Brian Harley

(New York: Palgrave Macmillan, 2010)

The Rise of Indian Multinationals

The Rise of Indian Multinationals

Perspectives on Indian Outward Foreign Direct Investment

Edited by

Karl P. Sauvant
and
Jaya Prakash Pradhan,

with

Ayesha Chatterjee
and
Brian Harley

palgrave
macmillan

THE RISE OF INDIAN MULTINATIONALS

Please check whether the © page inserted by us is correct

First published in 2010 by
PALGRAVE MACMILLAN®
in the United States—a division of St. Martin's Press LLC,
175 Fifth Avenue, New York, NY 10010.

Where this book is distributed in the UK, Europe and the rest of the world, this is by Palgrave Macmillan, a division of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire RG21 6XS.

Palgrave Macmillan is the global academic imprint of the above companies and has companies and representatives throughout the world.

ISBN: 978–0–230–10844–8

Library of Congress Cataloging-in-Publication Data is available from the Library of Congress.

Please provide CIP data and First Edition details

A catalogue record of the book is available from the British Library.

Design by Newgen Imaging Systems (P) Ltd., Chennai, India.

First edition:

10 9 8 7 6 5 4 3 2 1

Printed in the United States of America.

To Howard V. Perlmutter, who sparked my interest in foreign direct investment and multinational enterprises

—Karl P. Sauvant

To my dear teacher, Swami Somabeshji; to my parents, Rama Chandra Pradhan and Tapaswini Pradhan; to Sradhalaxmi Sahoo, my wife; and to my daughter: Gargi Pradhan

—Jaya Prakash Pradhan

To Kaushik and Sumita Chatterjee, for inspiring me to reach higher

—Ayesha Chatterjee

To Matthew and Pauline Harley

—Brian Harley

Vale Columbia Center on Sustainable International Investment—The Vale Columbia Center on Sustainable International Investment (VCC) seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy, paying special attention to the sustainability dimension of this investment. It focuses on the analysis and teaching of the implications of FDI for public policy and international investment law. Its objectives are to analyze important topical policy-oriented issues related to FDI, develop and disseminate practical approaches and solutions, and provide students with a challenging learning environment. For more information, please see http://www.vcc.columbia.edu.

SPIESR—The Sardar Patel Institute of Economic and Social Research (SPIESR) is among the leading national-level research and academic institutions in India. Established in 1969, SPIESR has made an immense contribution in the field of economic and social research, covering a wide spectrum of issues like trade and foreign investment, industrial and agricultural development, consumption and poverty, deprived social groups, education, regional development, natural resources, common property, and infrastructure development. Supported jointly by the Gujarat government and the government of India through the Indian Council of Social Science Research, its geographical focus of research encompasses development issues of local, regional, national, and global economies. Beside research, the Institute has been playing an important role in imparting training to research scholars, guiding Ph.D. students, and participating in government committees to provide policy inputs on economic and social issues.

Contents

Figures and Tables

Figures

Tables

Contributors

Giovanni Balcet is a full professor of International Economics and International Business at the University of Turin, Italy. He has undertaken extensive research on multinational enterprises, international joint ventures, and the automotive industry.

Silvia Bruschieri has been working at the Italian Institute of Foreign Trade (ICE) since 2000. She studied political sciences at the University of Turin (1994), where she also obtained her PhD from the Dipartimento di Economia Cognetti De Martiis in 2009, with a thesis on Indian multinational enterprises.

Ayesha Chatterjee is a J.D. candidate at Columbia Law School, where she is a Harlan Fiske Stone Scholar and a Public Affairs Editor for the *Columbia Journal of Transnational Law*. She previously worked as a financial analyst in securitization at Deutsche Bank Securities, Inc. She is a graduate of the University of Pennsylvania's Huntsman Program for International Studies and Business, through which she received a B.S. in Economics, with concentrations in Finance and Business & Public Policy from the Wharton School, and a B.A. in International Studies.

Nandita Dasgupta is a member of the faculty of economics at the University of Maryland, Baltimore County (UMBC), Maryland (United States). She is also a visiting faculty to Johns Hopkins University, and was a consultant with The Earth Institute at Columbia University. A Ph.D. degree holder from Calcutta University, Ms. Dasgupta has extensive teaching experience, and has thrice been awarded the Best Teacher Award in Economics at UMBC. She has published extensively in the area of foreign direct investment. Her current research interests include international trade and business, in particular the implications of foreign direct investment outflows from developing countries.

Michael W. Hansen is an Associate Professor at the Centre for Business and Development Studies, Copenhagen Business School. Since 1994, he has done research on various aspects of firm strategy in developing countries, including environmental management strategy, subsidiary mandate evolution, multinational enterprises (MNEs) and outsourcing, the rise of MNEs from developing countries, and MNEs' role in private sector development. Prior to his employment at CBS, he worked at the United Nations Centre on Transnational Corporations in New York. Currently, his research is focusing on linkages between MNEs and local firms in Asian developing countries, especially of Danish MNEs in India.

Brian Harley is an LL.M. candidate at Columbia Law School, and a graduate of the London School of Economics (LL.B.) and Sussex University (M.A.). He has worked as a lawyer on investment-related matters with Mason Hayes+Curran in Dublin, Ireland, and King & Wood P.R.C. Lawyers in Beijing, China.

Cornelius Herstatt is a Director and Professor at the Institute for Technology and Innovation Management, Hamburg University of Technology, Germany. He is also a founding partner at the European Institute for Technology and Innovation Management. He has published extensively on innovation and technology management.

Vinish Kathuria is an Associate Professor at the Shailesh J. Mehta School of Management (SJM SOM) of the Indian Institute of Technology, Bombay, since August 2007. His teaching and research activities relate to economics, mainly in the fields of industrial economics and economics of industrial and urban pollution. Before joining SJM SOM, he was Fulbright Senior Researcher fellowship to the University of Colorado, Boulder (United States). He has several publications in international journals, including *Oxford Economic Papers, Ecological Economics, Applied Economics, Journal of International Development, Transnational Corporations, Transportation Research, Technological Forecasting,* and *Social Change.* He has pursued his postdoctoral work at the University of Gothenburg, Sweden, in the area of environmental economics, and had a Ph.D. internship from the United Nations University Institute for New Technologies (UNU/INTECH), Maastricht, the Netherlands. His thesis was short-listed by UNESCO for its Management of Social Transformation (MOST) award in the years 2000–2001.

Parthapratim Pal is an Associate Professor at the Indian Institute of Management (IIM), Calcutta. He has a Ph.D. from Jawaharlal Nehru University in New Delhi. He has worked in the areas of financial markets and international economics. Before joining IIM, he worked with the Indian Council for Research in International Economic Relations (ICRIER) and the Indian Institute of Foreign Trade (IIFT). His recent areas of interest include global financial crises, regional trade agreements, WTO-related issues, and international capital flows. He has a number of publications in national and international journals and books.

Jørgen Dige Pedersen is a lecturer at the Department of Political Science, University of Aarhus. His research has concentrated on development and international political economy, with a special focus on India. Recent publications include *Globalization, Development and the State: The Performance of India and Brazil since 1990* (Palgrave Macmillan 2008).

Jaya Prakash Pradhan is an Associate Professor at the Sardar Patel Institute of Economic and Social Research, Ahmedabad. He has served on the faculties of the Institute for Studies in Industrial Development, New Delhi, and the Gujarat Institute of Development Research, Ahmadabad, and also worked as a consultant to the Research and Information System for Developing Countries, New Delhi. He has been involved in research projects sponsored by the Department of Scientific and Industrial Research under the Ministry of Science and Technology, government of India, and the United Nations Conference on Trade and Development, Geneva. Having published three books on the internationalization of Indian firms and regional development, and over 30 research papers in different journals, his current research interests include issues concerning Indian multinational enterprises and the internationalization of India's knowledge-based industries.

Joël Ruet is an economist with the National Centre of Scientific Research in France (CNRS), affiliated to LATTS (ENPC-ParisTech) at the Université Paris-Est. He is a visiting scholar at CEFC, Hong-Kong (China). The writer or editor of six books, he teaches at HEC-Paris, Ecole des Mines-ParisTech. He was Visiting Fellow at the London School of Economics, directed the Centre for Human Sciences in New Delhi, and has taught at Jawaharlal Nehru University, New Delhi. His current research focuses on the political economy of reforms in India and China and on global business models of firms from emerging markets, for which his team was a laureate in 2007 of the International Program for Advanced Studies, Columbia University & MSH-Paris.

Karl P. Sauvant is the Founding Executive Director of the Vale Columbia Center on Sustainable International Investment, Senior Research Scholar, and Lecturer in Law at Columbia Law School, Co-Director of the Millennium Cities Initiative, and Guest Professor at Nankai University, China. Before that, he was Director of UNCTAD's Investment Division. He is the author of, or responsible for, a substantial number of publications. In 2006 he was elected an Honorary Fellow of the European International Business Academy. He received his Ph.D. from the University of Pennsylvania in 1975.

Rajnish Tiwari is a Research Associate at the Institute for Technology and Innovation Management, Hamburg University of Technology, Germany. Currently pursuing his doctoral degree, he is engaged in research on market-driven globalization of innovation. Indian investments in Germany are a focal point of his work. He was awarded the "Market and Customer Orientation" prize by the Vodafone Foundation for Research in 2006.

Foreword

Ravi Ramamurti

The surge in outward foreign direct investment (FDI) by Indian firms in the past ten to fifteen years raises a host of interesting questions. This edited volume by Karl P. Sauvant and Jaya Prakash Pradhan takes us several steps closer to finding answers to those intriguing questions. It will be a valuable resource for all scholars interested in India's emerging multinational enterprises.

One such question is why a poor country like India is the source of outward FDI. According to standard economic theory, poor countries are supposed to be capital short and, therefore, importers of capital. According to international business theory, outward FDI is supposed to rise only after per capita income exceeds \$5,000 or \$10,000, whereas India's was only \$1,000 in 2008. India is one of the few low-income countries that appear in the top-ten list of outward investors in the developing world. As Pradhan and Sauvant note in their introduction, India ranked eighth in outward FDI in 2000–2007 among Asia's emerging economies. With the exception of China, all other outward investing countries in Asia have significantly higher per capita incomes than India: Hong Kong (Special Administrative Region of China), the Republic of Korea, Malaysia, the Philippines, Singapore, and Taiwan, Province of China. So what accounts for the premature and surprisingly high outward FDI of Indian (and Chinese) firms?

The answer to this puzzle, it would appear, is that being a large and diverse country, India has pockets—regions and industries—in which its firms are quite sophisticated, in terms of technology, operations, and management. In what they do, these firms are capable of competing with the best in the world, be it software services or engineered goods. The contrast in economic development between parts of Bihar, on the one hand, and parts of Maharashtra or Tamil Nadu, on the other hand, is striking. In other words, the level of economic development and per capita income in India's more developed parts are comparable to those of middle-income developing countries that are major outward investors. If Mumbai or Bengaluru were city-states like Singapore, their per capita incomes would be several times India's average. Viewed this way, the puzzle we began with is readily resolved. The lesson one takes away is that large developing countries like India are properly viewed as collections of highly developed and highly underdeveloped parts, and it should be no surprise if the former regions spawn global firms. With this correction, India does not present a challenge to conventional theory.

But there is a deeper puzzle in the Indian case, which is why total outward FDI by India is almost as large as total inward FDI into India. It is not just that some firms are net overseas investors, but that India as a whole is close to being a net outward investor. In this regard, India is significantly different even from China, which received about $500 billion in inward FDI before its firms began to make outward investments. Even as late as 2007, China's inward FDI was five times its outward FDI, whereas in India's case, both inward FDI and outward FDI began to surge at about the same time—around 2005; in 2007, the two flows may have been nearly equal, if measured by deal value (official statistics define FDI inflows and outflows somewhat narrowly, but total deal value looks at the size of cross-border investments, regardless of how they are financed).

In the recent past, this has also been true of the other BRIC countries, but the puzzle in India's case is more intriguing for two reasons. In China, state-owned enterprises have been at the forefront of outward FDI; given China's exchange rate policy and the resulting foreign exchange reserves, it is easier to understand why the country's state-owned firms may be on a shopping spree abroad. In the case of Russia and Brazil, a large part of the outward FDI is in the natural resource sector, consisting of either downstream integration (Russia) or upstream integration (China). Indian outward FDI is neither state-led nor predominantly in natural resource industries, but rather in knowledge-intensive industries, as Pradhan and Sauvant note in their introductory chapter. How is one to explain the volume and industry composition of Indian outward FDI?

I suspect the answer has two parts, one of which has to do with the capabilities of India's private sector, while the other stems from weaknesses in the Indian business environment, as we have argued in an earlier work (Ramamurti and Singh 2009). On the positive side, India's outward FDI is led by highly entrepreneurial private firms that have capabilities in design, production, branding, and distribution, and are innovative at providing products and services of "good enough" quality at ultra-low prices (Govindarajan and Ramamurti 2010). These capabilities transfer well to foreign markets, including other emerging markets. It is often noted that India's economic reforms lagged China's by more than a decade; but what is often overlooked is that India's private sector is a decade or two ahead of China's. I am inclined to agree with Yasheng Huang's view that China's large inward FDI flows reflect the weaknesses of its private sector, while India's low inward FDI flows (until very recently) reflect the strengths of its private sector (2003). It is for this reason that Indian firms are showing more dynamism internationally than Chinese firms do. As for the higher skill- or knowledge-intensity of India's outward FDI, I think it merely reflects the high cost of doing business in India, notably the infrastructure and logistical penalty of getting goods in and out of the country. As a result, the internal efficiency of Indian firms is offset by external inefficiencies, making them unable to compete in foreign markets in businesses where cost is paramount. This not only skews Indian exports in the direction of skill-intensity (where margins are high enough to overcome the India penalties), but also makes FDI the next best alternative to exports—unlike in the Chinese case, where efficient firms can compete globally with production inside China (for more along these lines, see Ramamurti 2008).

A final puzzle in the Indian case is why so much of the outward FDI is directed at rich countries. As Pradhan and Sauvant note in their introduction, during 1961–1989, 82% of Indian outward FDI went to other developing countries; but in 1990–2007, almost 62% went to developed countries. Why is a poor country like India investing such a large proportion of its outward FDI in rich countries? Several answers have been provided for this puzzle, including the view that Indian firms are seeking Western technology and brands in areas in which they are weak. But one does not see the same concentration on rich host countries in Chinese outward FDI. I think this again reflects the greater willingness of Indian private firms to venture into advanced countries in search of ideas, technologies, and markets. Not being state-owned is a double advantage for Indian firms compared to Chinese firms, because it allows them to move more boldly and swiftly (Vernon 1979), and it raises fewer red flags among Western policy makers and the public than when state-owned firms from a Communist country are the acquirers.

I hope the above discussion illustrates the many intriguing issues raised by the Indian case for scholars interested in how and why firms internationalize. The analysis assembled so ably in this volume by Sauvant and Pradhan, and grounded so well in evidence rather than conjecture, sheds light on several such puzzling questions. It will surely provoke many more fruitful studies of Indian multinational enterprises, including comparative studies with similar firms from other major emerging markets.

Apr. 6, 2010

References

Govindarajan, Vijay and Ravi Ramamurti (2010), "Reverse innovation, emerging markets, and global strategy," paper prepared for inaugural issue of *Global Strategy Journal* and GSJ Conference, Chicago, July 2010.

Huang, Yasheng (2003), *Selling China: Foreign direct investment during the reform era* (Cambridge: Cambridge University Press).

Ramamurti, Ravi (2008), "Made-in-India Multinationals," *University of Pennsylvania Center for Advanced Study of India (CASI) Transition Series*, Oct. 9, 2008, available at http://casi.ssc.upenn.edu/iit/Ramamurti.

Ramamurti, Ravi and Jitendra V. Singh (2009), "Indian multinationals: Generic internationalization strategies," in Ravi Ramamurti and Jitendra V. Singh, eds., *Emerging multinationals in emerging markets* (Cambridge: Cambridge University Press), pp. 110–165.

Vernon, Raymond (1979), "The international aspects of state-owned enterprises," 10(3) *Journal of International Business Studies*, pp. 7–15.

Acknowledgments

The geography of global outward foreign direct investment is changing as firms from such emerging markets as India, China, Russia, and Brazil are increasingly venturing abroad. Indian multinational enterprises contribute to the growing importance of emerging markets' outward foreign direct investment. Many Indian firms, which were hitherto national players, have become international players in recent years by increasingly investing abroad.

The present volume is intended to provide new perspectives on the rise of Indian multinational enterprises. The *Vale Columbia Center* on Sustainable International Investment and the Institute for Studies in Industrial Development, both having considerable expertise and research interests in the areas of foreign direct investment and public policy, have drawn together leading experts working on issues related to Indian foreign direct investment to shed light on this development.

All contributions by the authors have been peer-reviewed. We are grateful to the experts—Christian Milelli, Emin Akcaoglu, Glauco Arbix, Jean-François Huchet, Ling Liu, Peter Gammeltof, and Ravi Ramamurti—for providing their useful views and suggestions during the review process. The assistance of Wouter Schmit Jongbloed in editing this volume is greatly appreciated, as is the help of Lisa Sachs and Zehra Gulay Kavame in bringing this volume to fruition.

New York City and Ahmedabad, March 2010
Karl P. Sauvant
Jaya Prakash Pradhan
Ayesha Chatterjee
Brian Harley