Executive Summary

Over the last decade, the rising trend in Outward Foreign Direct Investment (OFDI) from especially developing and transition economies reflects the increasing global competitiveness and internationalisation of these economies. The driving force behind this trend has been their quest for natural resources and markets beside strategic assets such as technology and brands. While the early movers of outward expansion from developing countries were mainly the newly industrialising economies of Asia and some Latin American and West Asian economies, other developing countries such as Argentina, Chile, China, India, Malaysia, South Africa and Venezuela, have also joined the pack and have contributed to this growing trend.

The study analyses the trends, patterns and geographical distribution of Outward Foreign Direct Investments (OFDI) from India. The study clearly attributes the changes in the OFDI pattern to the profound changes in Indian OFDI regulation. In the pre-liberalisation period, the Government of India viewed Indian overseas investments sceptically as a drain of human and domestic resources, resulting in very low OFDI. However, Indian Government’s attitude towards OFDI changed during the 1990s and has been identified as a means to enhance the global competitiveness of the Indian industry. It is owing to the rapid liberalisation and policy reforms in the Indian economy since 1991, that several Indian companies have been able to increase their market share in the global markets especially through the inorganic route of mergers and acquisitions. From being mere adaptors of foreign technology in many of the knowledge-based industries like pharmaceuticals, information technology, telecommunications, software and automobiles, they are spearheading innovations owing to their efficiency advantages and increasing Research and Development (R&D) expenditure.

The current study analyses the varied pattern of India’s overseas investment – in terms of sectors and geographies across different phases characterised by significant policy changes. An attempt has also been made to highlight the
m motives underlying these investments by Indian enterprises. The study finds strategic asset-seeking motive to be the dominant motive besides market seeking and natural resource-seeking motive for undertaking overseas investments.

The study takes the case of the Indian pharmaceutical industry to identify the rationale behind internationalisation strategies in the emerging economy context, as it has been one of the prominent outward investors along with the IT and Auto ancillary Sectors and has led the Indian OFDI, spearheading a spate of cross-border mergers and acquisitions (M&As) from the beginning of the decade. In this study an empirical model has been developed to examine the important locational determinants (pull factors) of host countries in influencing the spatial distribution of Indian pharmaceutical acquisitions.

The study reveals that locational factors have increasingly driven the spatial distribution of Indian pharmaceutical acquisitions. The study finds that most of the Indian pharmaceutical companies were increasingly acquiring firms in technologically advanced countries to augment their product development capabilities. The empirical results also reveal that the economic environment of the host country in terms of the corporate taxation regimes and inflation levels also influenced the choice of destination. While institutional variables, such as rule of law and political stability of the host country, appeared to be prerequisites for the Indian acquiring firms, the presence of corruption in host countries did not impact Indian foreign acquisitions. This indifference to the presence of corruption could be due to the familiarity for the Indian firms of working in similarly weak institutional environments. The openness of the host countries in terms of pursuing liberal policy regimes also turned out to be an important and positive determinant of the direction of acquisitions.

The theoretical implications of the study suggest that the existing theories on the internationalisation strategies of emerging market multinationals do need an overhaul since the choice of investment location of the Indian pharmaceutical firms does not conform to the mainstream theories. They have deviated from the conventional path of choosing neighboring and other
emerging economies to target developed economies in pursuit of their strategic intent. Future researchers can develop new theories, which can explain more adequately the internationalisation strategies of emerging market multinationals.