In Search of the “Indianness” of Indian Multinational Enterprises: Is There Anything Special about the Indian Path to Outward Foreign Direct Investment?

Michael W. Hansen*

Introduction

A new breed of multinational enterprises (MNEs) has risen in recent years, namely MNEs from developing countries.¹ These MNEs are emerging primarily out of the rapidly growing developing economies of Latin America and Asia. They are not content with taking the backseat in globalization, but rather seek to exploit the opportunities of globalization to their full extent. These MNEs have succeeded in becoming global leaders in industries such as electronics, advanced services, building materials, financial services, farm equipment, steel production, hotels and hospitality, and contract manufacturing. Meanwhile, MNEs like Cemex, Samsung, Hyundai, Infosys, CNPC, Lenovo, Mittal, Tata Group, and Flextronics are rapidly becoming household names in global industries.

The rise of MNEs from developing countries is reflected in recent outward foreign direct investment (OFDI) statistics. OFDI from developing countries increased from an annual average of US$45 billion in the 1990s to an annual average of US$150 billion in the 2000–2008 period, and as share of global foreign direct investment (FDI), FDI from these countries rose from an average level of around 11% in the 1990s to 16% by 2008 (United Nations Conference on Trade and Development [UNCTAD] 2010). This surge is mainly due to investment from Asian developing countries; in the early stages, Hong Kong (Special Administrative Region of China), Singapore, Taiwan Province of China, and the Republic of Korea were leading, but more recently India and China have become the leading Asian outward investors, accounting for almost one-third of OFDI from this

In this chapter, we will focus on OFDI from India. In the last few years, India has experienced astounding growth in OFDI. While inward foreign direct investment (IFDI) stock in India tripled between 2004 and 2008, Indian OFDI stock grew by eight times. During the same period, OFDI stock from developing countries as a whole only doubled (United Nations Conference on Trade and Development 2010). World-class newcomer Indian MNEs are moving into information technology (IT) and services in developed countries, and Indian firms are both diversifying into the knowledge industry and acquiring the crown jewels of European and U.S. manufacturing. In industries such as pharmaceuticals, software, IT, telecommunications, and transportation, Indian MNEs base their strategies on advanced technologies, high knowledge intensity, and cutting-edge strategies and organizational modes (Pradhan 2005, Huang and Khanna 2003). Even within the previously highly protected Indian manufacturing industry, we have seen a range of Indian manufacturing MNEs moving beyond their shielded home markets to become global leaders in their respective industries.

Recent years have seen an explosion in the volume of literature dealing with developing country MNEs. One of the key debates in this literature is whether the rise of MNEs from developing home countries is a phenomenon that requires new analytical tools and theories, or whether it can be captured within conventional theories of MNEs. Some argue that conventional theories of FDI adequately explain MNEs from developing countries (Gomez 1999, Buckley and Ghauri 2004). Others argue that developing country MNEs are special because of the particular development path and experience of their home countries, and that they therefore require new analytical tools (Hobday 1998, Li 2003, Mathews 2006). Finally, some argue that the rise of these MNEs is explained by the particularities of individual countries, for example, certain national business systems, institutions, and cultures (Whitley 1990, Khanna 2005, Kumar and Chadha 2007).

The ambition of this chapter is both empirical and theoretical. First, it aims to provide a better understanding of the dramatic increase in Indian OFDI in recent years. Second, in light of the empirical analysis, it will discuss the relative strengths and weaknesses of the different theoretical interpretations of developing country OFDI.

A. The Rise of Indian Multinational Enterprises

In characterizing the Indian OFDI path, it is common to distinguish between two major phases (see, e.g., Pradhan 2005, Sauvant 2005). The first phase, or the “early phase,” spans the early investment of the mid-1970s to the adoption of the new industrial policy in 1991. Modest investments were made in joint ventures (JVs) in developing countries in Africa and Asia, shaped, to a large extent, by political and regulatory constraints and the policies of the Indian government. The second phase, or the “start-up