

What drives the boom in outward FDI from India?

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Abstract

Purpose – The Indian economy has experienced a boom in outward FDI (OFDI) in 2006. The study aims at exploring the factors that drive the boom in OFDI of Indian firms.

Design/methodology/approach – The participation of a firm in OFDI is a two-stage process -first, the decision to internationalization and second, how much to invest. We employ a two-stage model to decompose the effects on the decision to internationalization from effects on how much to invest. The two-stage model has the advantage of allowing us to estimate separately the probability of internationalization by a firm – $\Pr(\text{OFDI} > 0)$ – and the expected volume of investment, $E(\text{OFDI}|\text{OFDI} > 0)$. The former is estimated by the probit model and the latter is estimated by the ordinary least square model.

Findings – The study finds that prior experience and institutional advantage can strongly drive the internationalization of Indian multinationals. The study also examines the relative importance of two aspects of prior knowledge – length of prior knowledge and depth of prior knowledge on OFDI of Indian firms. The study finds that the depth of prior knowledge is a must influential driver of OFDI in comparison to its length.

Originality/value – The present study is a novel attempt to investigate, ‘What drives the boom in OFDI from India?’

Keywords Emerging economies, OFDI, Internationalization, Indian multinationals

Paper type Research paper

1. Introduction

The surge of outward foreign direct investment (OFDI) from emerging economies has attracted a great deal of attention from the global business community and academia in recent decades. Increasing participation in international expansion through such a high commitment method (FDI) is highly challenging, particularly for emerging multinationals. A natural query thus arises – what factors drive accelerated internationalization[1] of emerging multinationals? There emerges a burgeoning literature (e.g. Luo and Tung, 2007; Ramamurti, 2012; Park and Roh, 2019) to explain the factors which induce them to participate in accelerated internationalization. One common characteristic emanating from prior research is that emerging multinationals always face the problem of the weak resource base in terms of the traditional firm-specific assets. They overcome the problem of such a weak resource base with non-traditional resources that arise from their institutional environment and industrial characteristics in which the firms are rooted. Given the complex relationship among institutions, resources and industry, prior research suggests integrative approaches for explaining the drivers of internationalization of the emerging multinationals. In the present study, we proffer one of such widely used approaches suggested by Peng *et al.* (2008) to investigate the drivers of internationalization of Indian multinationals. India has experienced a boom in OFDI in 2006 (Nagaraj, 2006). Against the backdrop of liberalization, the surge of OFDI from India since the early 1990s (presented in Figure 1) has been much discussed in the



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