Facilitating Overseas Investments

What is the issue?

Given the changing nature of overseas investments, India should have in place overseas strategic fund for potential sectors.

What is the new reality?

- Overseas investments in the developing country context are no more a mere expression of financial prowess to explore overseas markets.
- Given the evolving geo-economics, the need to secure one's long-term interest becomes paramount.
- These include areas of scarce natural resources like agricultural land, and strategic infrastructure creation in key locations abroad, amongst others.

How are countries performing at this end?

- Since the 21st century beginning, the world has witnessed an outward direct investment of $9.7 trillion, with the US leading all.
- China aims at occupying the second position which is currently being held by Japan.
- China's cumulative ODI stood at $767 billion during 2000 to 2017.
- India's, on the other hand, was 11 times lower at just $54 billion.
- This is equal to just 1% of global investments in these 17 years.
- According to the RBI, India's ODI in 2018 was one of its lowest in recent times.

What is the emerging trend?

- Till the middle of the last decade financial institutions supported overseas acquisitions.
- However, in recent times, there has been an increasing interest in setting up dedicated funds.
- Sovereign entities are undertaking such overseas investments, with most being of a strategic nature.
- This trend has led to the proliferation of a host of dedicated funds globally catering to their domestic interest in the short to medium term.

What are China's initiatives in this regard?

- Over the years, Chinese financial institutions have been at the forefront to manage multiple funds.
- These include China EximBank, China Development Bank, China Investment Corporation - all sovereign entities set up to facilitate Chinese business growth overseas.
- Many of these institutions have partnered with the likes of

    i. Inter-American Development Bank (IDB) in Latin America region
    ii. Hungarian Exim Bank in Eastern Europe
    iii. Russia Direct Investment Fund in CIS, amongst others

- This is to capitalise on the financing gap and potential in these select geographies.
- During the 2003-2018 period, Chinese investments in select strategic sectors have been twice that of India.
- In fuel resources and agricultural food, Chinese investments abroad are as high as 4-7 times that of India in the last 15 years.
- Symbolising its growing influence, China is also installing alternatives to western development-led finance.
- In this line, China has also fronted the likes of NDB, the AIIB and the Silk Road Fund.

How is it elsewhere?

- The European Investment Bank has set up the African Lion Mining Fund to invest in early stage equity in mineral resource companies.
- In particular, it applies to gold and base metals, besides mineral commodities such as industrial minerals and gemstones.
- Besides, KfW (Government of Germany) and Deutsche Bank have also established the Africa Agriculture and Trade Investment Fund to uplift Africa's agricultural potential.
- The US in 2018 formed the US International Development Finance Corporation to pursue its strategic interests through its own government’s backing.
- This initiative is considered as an effort towards specifically countering China’s influence globally.
- It also aims at furthering the US foreign policy goals whilst fostering participation of the private sector abroad.

What should India do?

- India today exhibits global aspirations to gain grounds across geographies.
- But India lacks any such dedicated fund to realise this.
- However, the demand here is not to create a Sovereign Wealth Fund whose

objectives are to get better returns from its investments.

- The priority in India is for a strategic fund which facilitates India's investments overseas in critical areas.
- India should look at carving a committed fund, given the need for India -
    i. to secure its mineral demands
    ii. to achieve its food requirements
    iii. to access critical resources for running sensitive industries back home
- E.g. to reduce imports of electronic items, dedicated overseas strategic fund could be housed and administered by a specialised government financial institution
- The fund could be meant for strategic investments by Indian PSUs and quasi-sovereign institutions planning cross border investments of longer tenor.

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