

Trends and Patterns of FDI Between India and The LAC Region

An Initial Exploratory Analysis

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Abstract- *India and the Latin America and Caribbean (LAC) region have emerged as major growth drivers of the world economy in the last couple of decades. However, trade and investment relations between these regions have been rather insignificant in the decade of the 1990s, but showed signs of picking up after 1995. Outward Foreign Direct Investments (OFDI) from the BRICS countries (Brazil, Russia, India and China) has grown rapidly over the last few years driven by both the large MNEs and small entrepreneurial firms like the Born Globals. This paper is an initial exploration of emerging trends in investment between India and the LAC region. It also attempts a motive analysis of FDI between India and Brazil, which has seen the largest number of deals in the past two decades.*

Key Words: India, LAC, Brazil, FDI, Motives, JEL Classification no : F21, F23, N76

Introduction

The Indian investment story began in real earnest with the onset of economic reforms in 1991. Prior to this, FDI from India, both inbound and outbound, was insignificant due to the inward looking protectionist regime. A few Indian enterprises were investing abroad in the mid-1960s (Lall 1983), but outward investment activity was almost negligible. Outbound FDI (OFDI) has undergone long term transformations in its character covering industrial structure, geographical composition, ownership controls, entry modes, motivations, and sources of financing since the economy embarked on its liberalisation journey and has surged forward since 1991 (Hansen 2007).

India and the Latin America and Caribbean (LAC) region have emerged as major growth drivers of the world economy in the last couple of decades. However, trade and investment relations between these regions have been rather insignificant in the decade of the 1990s, but showed signs of picking up after 1995. The LAC

region is neither an important export destination nor a significant source of imports, and both account for less than 4% share of total trade with India. Investment relations have been similarly insignificant and over the last two decades, the Latin American and Caribbean region has received just about 4% of India's outward FDI. More than 70% of this meagre amount has been invested through the British Virgin Islands and Cayman Islands. Productive investment in the region as a whole has therefore been quite limited (ECLAC 2012).

Outward foreign direct investment (OFDI) from the BRICS countries (Brazil, Russia, India and China) has grown rapidly over the last few years even though it is a modest amount compared to the developed world. According to the latest Global Investment Trends Monitor (GITM, 2013) OFDI from BRICS into other countries has climbed from \$7 billion in 2000 to \$126 billion in 2012, rising from 1% of world flows to 9%, and over 65% of total developing country outflows. The composition of FDI shows the existence of

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large companies (Ramamurti, 2012), such as Brazil's Embraer, China's State Grid, and India's Tata (Guillen and Garcia-Canal, 2009) along with small entrepreneurial enterprises - the born global firms. The born global phenomenon has been reported in Latin America from Costa Rica (Lopez *et. al.*, 2009) and Brazil (Dib, *et. al.*, 2010, Ribiero 2011). In Asia, studies include research on Chinese born globals (Zhou, *et. al.*, 2007), Indian IT companies (Varma, 2011;), and Vietnamese companies (Thai and Chong, 2008).

The aftermath of the financial crisis has led Indian business firms to the search for new markets and hitherto unexplored destinations for both trade and investment. Programmes such as “Focus LAC” are important instruments of the foreign trade policy, aimed at creating institutional mechanisms for co-operation, improved market access and infrastructure facilities. In this context, the present study is an initial exploratory analysis of trends in Indian outbound FDI (OFDI) to Latin America. It examines, among other things, industry patterns, motives and strategic intent of India's emerging investment relations with the LAC region in general, with a specific focus on Brazil which has emerged as its primary investment destination.

Trends and Composition of FDI Flows Between India And LAC

Prior to liberalisation in the 1990s, India's outward FDI flows were largely limited to its neighbouring developing countries and were viewed as its contribution to South-South cooperation. However, this changed in the early 1990s and the share of FDI from India to the developed world rose continuously from 24% in the 1980s to 44% in the 1990s. The year 2000 was the beginning of an OFDI boom – during the

period 2000 – 07 FDI from India increased to 64% of total FDI. In the period 2002-2009, Europe received more than US\$ 30 billion of India's outward FDI, absorbing more than 40% of the total FDI outflow and in the period 2008 - 10 annual average OFDI totalled US\$ 17 billion.

During the period 2000 -10, OFDI from India was led by cross border M&A activity by 306 firms mainly from the IT and pharmaceutical sector (Varma 2010). The Latin American and Caribbean region is a large market of 33 countries, with a population of 580 million people, regional GDP of US\$ 4.9 trillion (at current prices), per capita GDP over five times higher than that of India, and US\$ 1.6 trillion in merchandise trade, accounting for 6% of the world total. However, investment relations between India and the LAC have been rather insignificant, accounting for merely 4% of FDI between 2002 and 2010.

The region recorded a growth rate of five per cent from 2003 – 08 backed by solid macroeconomic and fiscal management, as well as prudent financial and banking supervisory practices, and huge progress in lowering poverty. In this context India's gradual, but steady, opening to the world economy, its high savings and investment rate, and rapidly expanding middle class, whose demands for western consumer products is growing in leaps and bounds, offer enormous opportunities for expanded international trade and investment.

A firm level analysis of FDI transactions to LAC between 1991 – 2013 shows a total of 140 deals – out of these only 6 % of the deals were in the decade of the 90s and the remaining 94 % were between 2000 – 2013.

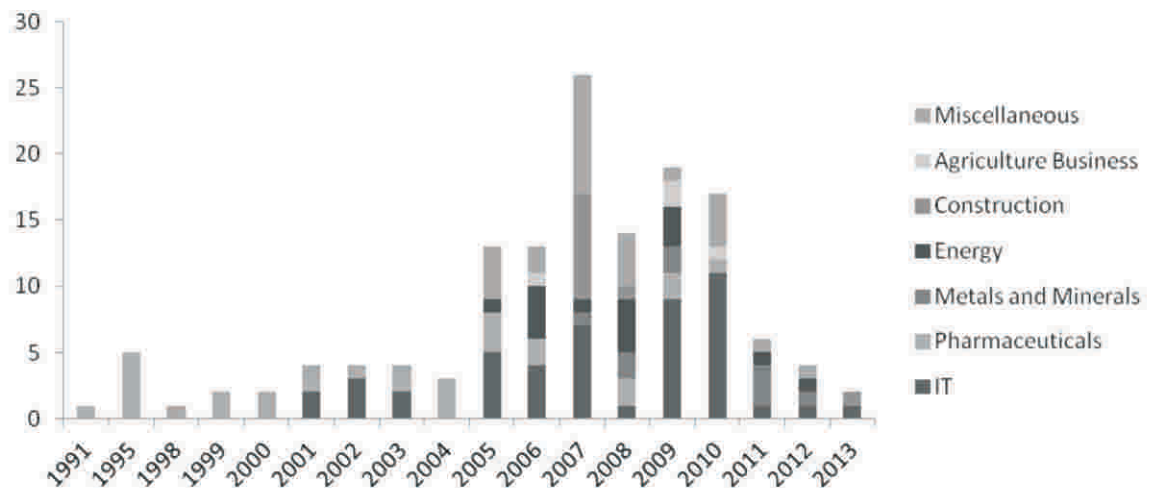
| TEMPORAL DISTRIBUTION OF FDI TRANSACTIONS IN LAC | | | | | | | | |
|--|----|-----------------|---------------------|--------|--------------|----------------------|---------------|-------|
| Year | IT | Pharmaceuticals | Metals and Minerals | Energy | Construction | Agriculture Business | Miscellaneous | TOTAL |
| 1991 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| 1995 | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 5 |
| 1998 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 |
| 1999 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| 2000 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| 2001 | 2 | 1 | 0 | 0 | 0 | 0 | 1 | 4 |

| | | | | | | | | |
|------|----|----|---|----|----|---|----|-----|
| 1999 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| 2000 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| 2001 | 2 | 1 | 0 | 0 | 0 | 0 | 1 | 4 |
| 2002 | 3 | 1 | 0 | 0 | 0 | 0 | 0 | 4 |
| 2003 | 2 | 1 | 0 | 0 | 0 | 0 | 1 | 4 |
| 2004 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| 2005 | 5 | 3 | 0 | 1 | 0 | 0 | 4 | 13 |
| 2006 | 4 | 2 | 0 | 4 | 0 | 1 | 2 | 13 |
| 2007 | 7 | 0 | 1 | 1 | 8 | 0 | 9 | 26 |
| 2008 | 1 | 2 | 2 | 4 | 1 | 0 | 4 | 14 |
| 2009 | 9 | 2 | 2 | 3 | 0 | 2 | 1 | 19 |
| 2010 | 11 | 1 | 0 | 0 | 0 | 1 | 4 | 17 |
| 2011 | 1 | 0 | 3 | 1 | 0 | 0 | 1 | 6 |
| 2012 | 1 | 0 | 1 | 1 | 0 | 0 | 1 | 4 |
| 2013 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 2 |
| | 47 | 26 | 9 | 15 | 10 | 4 | 29 | 140 |

Fig. 1 Temporal Distribution of Indo – Lac Ofdi

In terms of entry mode, 49% of the FDI deals were in the form of Greenfield investment as wholly owned subsidiaries, 42% were M&As, 6% were joint ventures and 3% were branch offices.

Temporal Distribution of Latin American Transactions



MODE OF ENTRY

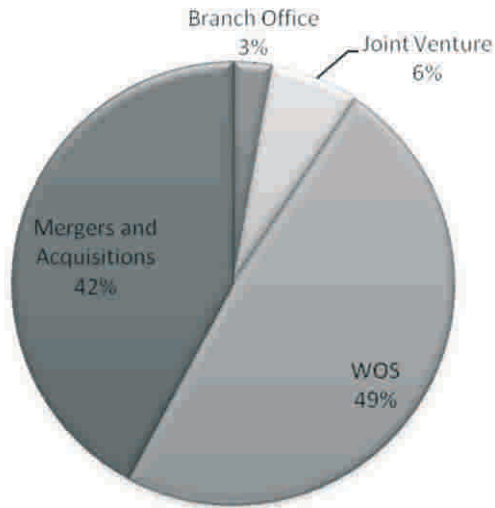


Fig 2 Modes of Entry

Industry wise distribution of these FDI transactions shows that largest share of these transactions were undertaken in IT industry (34%), followed by Pharmaceuticals (19%), Energy (11%), Construction (7%), Minerals and Metals (6%), Agribusiness (3%), remaining industries being covered under the head Miscellaneous.

Table 2
Indo Lac Ofdi – Industry Distribution

| INDUSTRY DISTRIBUTION | | |
|-----------------------|------------------------|------------|
| INDUSTRIES | Number of Transactions | Percentage |
| IT | 47 | 34% |
| PHARMA | 26 | 19% |
| MINERALS & METALS | 9 | 6% |
| ENERGY | 15 | 11% |
| CONSTRUCTION | 10 | 7% |
| AGRI BUSINESS | 4 | 3% |
| MISCELLANEOUS | 29 | 21% |
| TOTAL | 140 | 100% |

INDUSTRY DISTRIBUTION

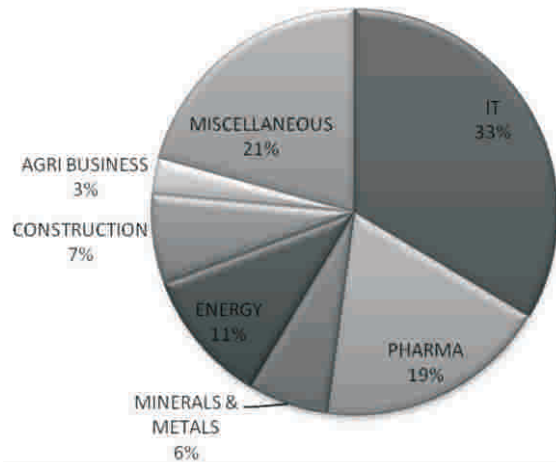


Fig 3 Industry Composition of Indo – Lac Ofdi

Geographical destination of these flows shows that 49% of total number of FDI transactions went to Brazil (36%) and Mexico (13%), making them the most favoured destination in the LAC Region. 26% of total transactions are directed towards three countries: Argentina, Colombia and Chile. While other countries in LAC, namely, Bolivia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Jamaica, Nicaragua, Panama, Paraguay, Peru, Trinidad & Tobago, Uruguay and Venezuela, each accounted for mere 1-2% of total transactions.

Table 4
Geographic Distribution Of India – Lac Ofdi

| GEOGRAPHIC DISTRIBUTION | | |
|-------------------------|------------------------|------------|
| COUNTRIES | Number of Transactions | Percentage |
| Argentina | 17 | 12% |
| Bolivia | 4 | 3% |
| Brazil | 50 | 36% |
| Chile | 7 | 5% |
| Colombia | 12 | 9% |
| Costa Rica | 2 | 1% |
| Cuba | 1 | 1% |
| Dominican Republic | 2 | 1% |
| Ecuador | 1 | 1% |
| El Salvador | 3 | 2% |
| Guatemala | 2 | 1% |

| | | |
|-------------------------|-----|------|
| Jamaica | 2 | 1% |
| Latin America (Unknown) | 2 | 1% |
| Mexico | 18 | 13% |
| Nicaragua | 1 | 1% |
| Panama | 1 | 1% |
| Paraguay | 1 | 1% |
| Peru | 8 | 6% |
| Trinidad & Tobago | 1 | 1% |
| Uruguay | 3 | 2% |
| Venezuela | 2 | 1% |
| | 140 | 100% |

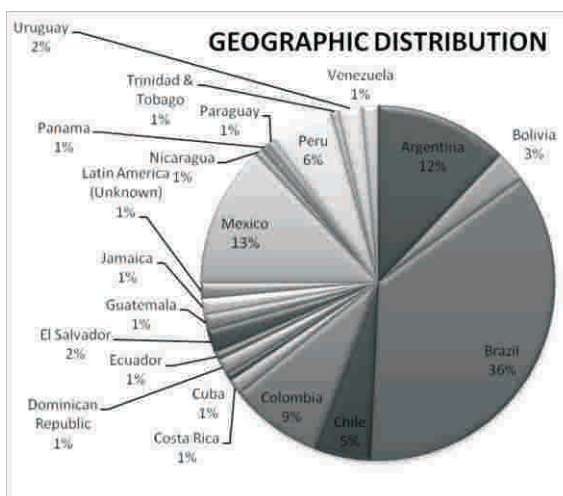


Fig 4 Geographical Distribution of Indo – Lac Ofdi

OFDI FROM INDIA TO BRAZIL

Brazil and India have emerged as important investment destinations in the world economy. Taken together they represent almost 4.7 % of world GDP (ECLAC 2012). Brazil is among India's top five export destinations for pharmaceutical products and has also emerged as the chief FDI destination. As the analysis done in the previous section shows, Brazil is India's key investment partner in the Latin American region accounting for 36 % of OFDI from India between 1991 - 2013.

The following table shows the firm level OFDI transactions between India and Brazil giving details of industry as well as mode of entry.

Table 5
Fdi Transactions in Brazil

| FDI TRANSACTIONS IN BRAZIL | | | |
|----------------------------|---------------|----------------------|-------------------|
| Name | Year of Entry | Mode of Entry | Industry |
| Mahindra Satyam | 2010 | Greenfield | IT |
| Mahindra Satyam | 2010 | Greenfield | IT |
| Mahindra Satyam | 2013 | Merger & Acquisition | IT |
| Patni Computers | 2003 | Greenfield | IT |
| TCS | 2002 | Greenfield | IT |
| Infosys | 2009 | Greenfield (WOS) | IT |
| Infosys | 2009 | Greenfield (WOS) | IT |
| HCL Technologies | 2008 | Greenfield | IT |
| Wipro | 2011 | Merger & Acquisition | IT |
| Aptech | 2009 | Joint Venture | IT |
| Manthan Systems | 2010 | Greenfield | IT |
| Ranbaxy Laboratories | 2005 | Greenfield | Pharmaceuticals |
| Ranbaxy Laboratories | 2000 | Greenfield | Pharmaceuticals |
| Glenmark | 2003 | Greenfield | Pharmaceuticals |
| Glenmark | 2004 | Merger & Acquisition | Pharmaceuticals |
| Glenmark | 2006 | Merger & Acquisition | Pharmaceuticals |
| Glenmark | 1991 | Branch Office | Pharmaceuticals |
| Torrent | 2002 | Greenfield (WOS) | Pharmaceuticals |
| Bilcare | 2011 | Greenfield | Pharmaceuticals |
| Zydus Cadilla | 2007 | Merger & Acquisition | Pharmaceuticals |
| Maneesh Pharma Pvt Ltd | 2006 | Merger & Acquisition | Pharmaceuticals |
| Claris Lifesciences | 1999 | Greenfield | Pharmaceuticals |
| Aurobindo | 1999 | Joint Venture | Pharmaceuticals |
| Unichem | 2007 | Merger & Acquisition | Pharmaceuticals |
| Sun Pharma | 2010 | Merger & Acquisition | Pharmaceuticals |
| Videcon Industries Ltd | 2008 | Merger & Acquisition | Minerals & Metals |
| Bharat Petroresources | 2008 | Merger & Acquisition | Minerals & Metals |
| Aditya Birla Group | 2007 | Merger & Acquisition | Minerals & Metals |
| Essar Group | 2009 | Greenfield | Minerals & Metals |
| ONGC | 2007 | Merger & Acquisition | Energy |
| Videcon International | 2009 | Merger & Acquisition | Energy |
| Bharat Petro Resources | 2009 | Merger & Acquisition | Energy |
| Suzlon Energy Ltd | 2006 | Greenfield | Energy |
| Larson and Toubro | 2013 | Greenfield | Construction |
| Larson and Toubro | 2008 | Branch Office | Construction |
| Shri Renuka Sugars | 2010 | Merger & Acquisition | Agri Business |
| Shri Renuka Sugars | 2009 | Merger & Acquisition | Agri Business |
| Bajaj Hindustan | 2006 | Greenfield | Agri Business |
| Mahindra & Mahindra | 2008 | Greenfield | Miscellaneous |
| TVS | 2010 | Greenfield | Miscellaneous |

| TEMPORAL DISTRIBUTION OF FDI TRANSACTIONS IN BRAZIL | | | | | | | | |
|---|----|-----------------|---------------------|--------|--------------|----------------------|---------------|-------|
| Year | IT | Pharmaceuticals | Metals and Minerals | Energy | Construction | Agriculture Business | Miscellaneous | TOTAL |
| 1991 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| 1995 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1998 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1999 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| 2000 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| 2001 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2002 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 2 |
| 2003 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 3 |
| 2004 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| 2005 | 0 | 1 | 0 | 0 | 0 | 0 | 2 | 3 |
| 2006 | 0 | 2 | 0 | 1 | 0 | 1 | 1 | 5 |
| 2007 | 0 | 2 | 1 | 1 | 0 | 0 | 4 | 8 |
| 2008 | 1 | 0 | 2 | 0 | 1 | 0 | 1 | 5 |
| 2009 | 3 | 0 | 1 | 2 | 0 | 1 | 1 | 8 |
| 2010 | 3 | 1 | 0 | 0 | 0 | 1 | 1 | 6 |
| 2011 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 3 |
| 2012 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2013 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 2 |
| | 11 | 14 | 4 | 4 | 2 | 3 | 12 | 50 |

The data given above shows that the majority of FDI to Brazil is in the Pharmaceutical sector followed by the IT sector.

The Indian pharmaceutical industry ranks 4th in volume and 13th in value in the world today, accounting for 8% of global production and 2% of the world pharmaceutical market (OPPI 2009). It has a production value of approximately \$4.5 billion and employs 5 million workers directly and 24 million workers indirectly. The industry structure is dualistic with about 90% of the 20,000 firms in the small scale sector.

The industry has been governed by a radical regulatory framework including the Indian Patent Act of 1970, the Industrial Policy Act, 1991 and the signing of TRIPS in 1995, all of which have provided the opportunities for strategic change and renewal of firms in the industry.

As documented in a previous study (Varma 2010), the internationalization strategy of the Indian pharmaceutical industry has been a combination of collaboration with acquisition driven by the desire to tap the profits from the generics market opportunity as well as build their R&D capabilities in order to be able to transition

to becoming a drug discovery firm. It targeted the western regulated markets for R&D in the context of drugs, vaccines and diagnostics that were off patent or about to be off patent. It also entered into contract research and custom manufacturing, bioinformatics for genomics based drug research and clinical trials for the larger western MNCs. At the same time some firms were investing in the development of new drugs for global diseases such as diabetes. This led the industry on the path of internationalization through diverse modes of entry which were motivated by capability enhancement for drug creation and performing preclinical and clinical trials to cope with a changed competitive landscape. It also simultaneously entered into collaborations and alliances creating an environment of co-opetition. The strategy is clearly visible in its forays into the LAC region as well.

Indian FDI into Brazil can be documented in two phases :

- The first phase from 1994-99, saw a few large firms such as Ranbaxy and Glenmark which entered without much preparation and had to face several challenges.

- (Chaturvedi).
- The period from 1997 onwards saw a huge increase in FDI to Brazil driven by major policy changes by the Brazilian government.

An analysis of some of the investing firms is as under :

Ranbaxy Laboratories limited (Ranbaxy), incorporated in 1961, is the largest Indian company in terms of sales, third largest in the formulations market and occupies the 8th global rank in the generics market. It pioneered the exploration of the generics market in India. It has a major presence in Brazil through a wholly owned subsidiary which was established in 2000, taking advantage of the introduction of the National Policy for Generics medicine in 1999. It thus became the first Indian company to get its plants approved by the regulatory authorities of Brazil. It also has the distinction of being the first international company to support the Brazilian government initiative to guarantee and improve access to generic medicines.

Glenmark Pharmaceuticals, established in 1977, is a research led API and generic formulations company. It was among the earliest entrants into Brazil as an exporter of branded formulations. Glenmark made its FDI entry into the Brazilian market through the acquisition of Klinger Laboratories in 2004. At the time of acquisition, Klinger had over 20 products registered and marketed in the country. It also had a manufacturing facility in Sao Bernardo do Campo in Greater Sao Paulo.

Maneesh Pharmaceuticals came into existence in 1975 as a small trading facility for biological raw materials and gradually expanded into manufacturing of generics followed by formulation and marketing of breakthrough brands. Led by Vinay Sapte, an electrical engineer, the company made rapid strides in the global arena through a string of acquisitions after 2006. It acquired Lasa Industria Farmaceutica in Brazil to establish a manufacturing base for market expansion.

Unichem Laboratories Ltd was established in 1944. Formulations form the core area of Unichem's business, but the company also manufactures active pharmaceutical ingredients

(APIs or bulk actives) and has a presence in several pharmaceutical products as well. It has global operations in both the developed and developing world. In the LAC region it has a subsidiary in Brazil to focus on the growing demand for generic products in the Brazilian pharmaceutical market.

Sun pharmaceuticals was established in 1983 and is a leading MNE in the API and speciality pharmaceutical segment with 60% of sales from international markets. It used domestic acquisitions to strengthen its home base and following the traditional stage model has grown to have a presence in 30 countries.

Bilcare Research was founded in 1993 as an innovation led solution provider in healthcare. It has three main areas of operation -Pharma Packaging & Research, Global Clinical Supplies and Bilcare Technologies for brand authentication and security. Its international operations spread across all four continents are in a mixed mode. It has manufacturing and R&D plants located in Europe, USA and Singapore and representative offices in various destinations all over the globe and has a wholly owned subsidiary in Brazil.

Discussion & Conclusion

This paper is an initial exploration of FDI from India to the LAC. It was based on a firm level analysis of FDI transactions to LAC between 1991 – 2013 and covered 140 deals – the majority of which (94 %) were between 2000 – 2013.

In terms of entry mode, 49% of the FDI deals were in the form of Greenfield investment as wholly owned subsidiaries, 42% were M&As, 6% were joint ventures and 3% were branch offices.

Brazil has been the recipient of a major portion of Indian investment(36%) followed by Mexico (13%) Argentina (12%), Colombia (9%) and Chile (5%). In Brazil the pharmaceutical industry has received maximum FDI followed by the IT industry.

Investments have been made by a mix of old and new and large and medium sized MNEs. This

includes firms considered veterans in the industry such as Unichem, as well as leaders like Ranbaxy and relative newcomers such as Claris Lifesciences. In terms of size as well, there is a mix of the large global firms as well as mid sized MNEs like Maneesh pharmaceuticals.

Investment was made through a variety of entry modes – Greenfield, M&A, Joint ventures and Branch offices.

It is interesting to note that the internationalisation path followed by all the MNEs – the veterans such as Unichem and Ranbaxy as well as the mid sized companies such as Maneesh Pharmaceuticals has been a traditional one beginning with exports and then establishing wholly owned subsidiaries or M&A. The LAC region recorded a growth rate of five per cent from 2003 – 08 backed by solid macroeconomic and fiscal management, as well as prudent financial and banking supervisory practices, and huge progress in lowering poverty. In this context India's gradual, but steady, opening to the world economy, its high savings and investment rate, and rapidly expanding middle class, whose demands for western consumer products is growing in leaps and bounds, offer enormous opportunities for expanded international trade and investment. This will need a three pronged strategy : developing joint strategies for trade and investment promotion; working together on infrastructure, competitiveness and innovation; and launching a series of policy dialogues on inter-regional cooperation.

Further research may be directed at exploring the issues related to the motivation behind the FDI from India to the LAC.

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