CHAPTER FOUR

CHAPTER - 4

PRIVATE FOREIGN INVESTMENT IN INDIA : EVOLUTION OF GOVERNMENT POLICY AND A PROFILE OF GROWTH

The policy of the host government plays a major role in determining magnitude and composition of PFI. Since independence India has adopted a selective policy towards the indraft of private foreign investment into the country. The Indian Government's policy in relation to foreign investment has been influenced from time to time by the development objectives. The foreign exchange crisis has also affected the formulation of foreign investment policy. It is attempted here to trace the evolution of India's official policy towards foreign investment since June 1948 Subsequently a growth profile of foreign investment is provided The profile of growth is discussed in relation to Governments policy towards foreign investment since 1960-61.[1]

I

INDIAN GOVERNMENT'S POLICY TOWARDS PRIVATE FOREIGN INVESTMENT

The pre-independence period witnessed the colonial pattern of PFI.[2] Obviously, this period lacked any official policy towards foreign investment as India was under British rule. Immediately after independence the role of private foreign investment was re-assessed by the Indian Government The PFI now was supposed to follow the objectives of the development programmes. The Indian Government's policy regarding PFI has been generally ambivalent. Sometimes PFI has been welcome and at times restrictions have been placed on foreign investment. Accordingly the discussion on the foreign investment policy is divided into three phases, taking into consideration prevailing attitude of the government towards foreign investment.

1. The Phase of Gradual Liberalization-1948-68.
2. The Selective and Restrictive Phase-1969-80
3 The Liberal Phase - 1980 onwards

1. The Liberal Phase (1948-68)

In the years immediately following Independence the colonial pattern of investment aroused hostility among business as well as political classes in India. The initial suspicion and fears of foreign domination was reflected in Government of India's Industrial Policy Resolution (IPR) of 1948 The IPR while recognizing that PFI can aid in rapid industrialization of the country also felt that there was a need to regulate investment to avoid its adverse effect The IPR of 1948 stressed that in case where foreign partnership was allowed majority ownership and control would rest in Indian hands. The realization on the part of the government regarding the significance of PFI forced the Indian government to become much more liberal It was implicit in the statement made by P M Nehru on PFI in 1949.[3]

The statement made it clear to the foreign investors that existing foreign interest was to be accorded national treatment and now foreign capital would be encouraged on mutually advantageous conditions. Moreover repatriation of capital and remittances of profits were to be permitted and fair compensation in the event of nationalization was to be assured. The 1949 statement even conceded majority ownership to foreign enterprises for a limited period.[4] The favourable treatment accorded to foreign capital was, however, resented by domestic entrepreneurs [5] Despite this resistance in fifties, the official attitude of liberalization was carried forward with government conceding majority ownership in several cases and provisions regarding double taxation and tax exemption for foreigner was negotiated.[6]

The IPR of 1956 further eloborated the official policy towards foreign investment, which did not make any distinction between domestic and foreign enterprises.[7] The late fifties marked a further liberalization in the government's attitude towards PFI. The relaxation was impelled by two factors · the foreign exchange crisis which emenated from the initiation of the second Five Year plan. The second plan while according priority to industrialization of the country felt that PFI was an appropriate and necessary source of capital and technological knowhow for industrial development.[8] In this connection Birla Mission was sent abroad in 1957 with chief objective of inviting foreign enterprises to invest in India [9] As industrialization gained momentum, even the private sector became strong protogonists of the doctrine of foreign capital as being essentially complementory to Indian capital. This change of attitude on the part of private interest in India was promoted by quotas and tariffs imposed by the government as part of import substitution programme. This provided a sheltered market for the Indian enterprises. The domestic enterprise began to see the inrush of foreign capital as a means of obtaining technical know-how to produce in the profitable domestic market.[10]

Following this, for several years foreign investment and technology were almost indiscriminately allowed even in non-essential areas.[11] For instance in 1961, the government announced a list of industries in which foreign investment was welcomed. These included some of the industries reserved earlier for public sector such as drugs, fertilizer and synthetic rubber These sectors are considered non-essential in the sense that India was almost self-sufficient in the production of these goods.

The indiscriminate invitation to foreign investment till 1967 resulted in a large outflow of on account of remittance of dividend, royalties etc, this caught the attention of the government in the course of another foreign exchange crisis in 1967-68 forcing the country to adopt a restrictive attitude toward foreign investment.

2. The Selective and Restrictive Phase (1968-80)

The year 1968 can be considered a landmark in the evolution of foreign investment policy of Indian government. This is so because it was for the first time after Nehru's statement in 1949, that clear guidelines were issue regarding GOI's policy with regard to foreign investment Certain procedural changes were also made. The Foreign Investment Board was set up in December 1968 on the recommendation of the Mudaliar committee (1966) to deal with all matters relating to foreign investment. With the setting up of FIB, the government also laid down clear guidelines for foreign investment with respect to the areas they were to be allowed, in what forms, and conditions regarding payments of royalties, lumpsum payments etc.

Three illustrative list of industries were issued : (a) where no foreign investment would be permitted (b) where only technical collaboration could be permitted and (c) where foreign investment might be permitted. While key industries like steel were barred from foreign capital on political ground, foreign participation in certain low priority areas like consumer goods sector was discouraged on economic ground. It was stated that the objective of regulating foreign technical and financial colloboration was to ensure that foreign capital and knowhow should be utilized in manner most advantageous to country, having regard to current and future needs and specially to strengthen effectively its BOPs position. This was to be done without injurously affecting the growth of Indian and foreign enterprise already well established in India.[12] The foreign investment were thus subjected to 3 consideration. (a) non-availability of indegenous resources, (b) its contribûtes to development (c) effects of BOPs. The regulation of effects of foreign capital participation was to be achieved by stipulation regarding equity participation, royalty payments on technical agreement, and duration of such agreement.

Foreign Investment Board was empowered to clear projects in which total investment in share capital did not exceeds Rs. 2 crores and where the proportion of foreign equity didnot exceed 40 p.c. For proposal with more than 40 p.c. foreign equity were to referred to the cabinet committee. This led the foreign participation to restrict upto 40 p.c. and thus marking the beginning of the phase of restricting foreign equity upto this level. The restriction on PFI got aggrevated further with the enactment of Foreign Exchange Regulation Act (1973) FERA in 1973. This act influenced the operations of foreign enterprises in India more than any other policy instrument. It became the corner stone of the regulatory framework for foreign investment in later years.

With the enactment of this Act, the official policy towards foreign investment became somewhat more restrictive in nature This became evident from one of the provisions of the Act (section 29) which reduced the foreign equity holding to a maximum of 40 p.c. in new enterprises. Further, the existing foreign companies, were required to dilute their holding. This provision of the Act attracted sharp reactions from some of the foreign companies which preferred to wind up their business in the country rather than obliging the government.[13] Owing to its restrictive nature FERA tipped the scales against foreign capital which was reflected in the reduced flow of foreign investment in the years following the enforcement of the Act Towards the end of the decade however, India's failure to significantly step up manufactured exports led to the realization that international competitiveness of Indian goods was poor because of growing technological obsolescence and high cost.[14]

In 1980, foreign exchange crisis surfaced again and the Government had to approach IMF for a loan to tide over the crisis. The IMF conditionalities compelled the government to modify its policy towards PFI, which was spelt out in IPR of Dec 1980. This marked the beginning of a liberal attitude towards foreign investment

3. The Liberal Phase (1980 onwards)

Though the entire period after 1980 witnessed liberalization in foreign investment policy, this phase has been discussed in two parts for the sake of convenience.

(i) Pre-reform period (1980-1991)

(ii) Post 1991 period

(i) Pre-reform period

The IPR of 1980, once again heralded the liberal era and remarkable change in policy towards PFI. For example, the foreign-enterprises were to be treated at par with the Indian Companies, restrictions on remittance abroad were withdrawn and import of technology was also guided by future export prospects. The important features of IPR 1980 relating to foreign investment are as follows :

- In order to promote technological self-reliance, the government permitted free flow of technology particularly in areas not adequately developed. Here it should be mentioned that self-reliance doesnot mean self-sufficiency, but it means that the country must have the ability to absorb and assimilate imported technology and to build on it so that it could be exported in future.[15]

- The foreign companies were to be treated at par with Indian Companies once the process of dilution is complete. The implication of this was that government would not place any restrictions or conditions on foreign enterprises which were not applicable to similar Indian enterprises.

- For all approved foreign collaborations there was to be complete freedom of remittances of dividends, royalties etc. It may be noted that earlier the government placed restriction on free flow of remittance abroad on account of pressures on BOP. This time pressures building up on India's BOP were sidetracked to attract PFI by introducing the above clause. One can reasonably argue in the absence of strong BOP position the relaxation relating to remittance was not desirable.

From 1985 onwards the process of liberalisation was greatly accelerated. The catch word became efficiency, modernisation and technological upgradation culminating in welcoming of foreign capital into many hitherto closed areas. For instance, to facilitate the flow of superior technology to existing industry the government decided to permit foreign equity participation even in existing Indian companies employing superior technology.[16]

With the initiation of liberalisation process in early 80s, PFI was not only considered as essential for augmenting financial resources for economic growth but also desirable from the standpoint of technological upgradation and augmentation of domestic savings.[17] Within the overall policy framework, the approach during the eighties towards PFI was to actively welcome it in a wide range of activities e.g. in 100% export oriented sectors like computer software.[18]

Although FERA laws continued to be in operation, significant adjustment in its scope was made to suit the convenience of foreign investors. For instance, in the case of companies which had earlier diluted foreign equity to 40 p.c., enlargement of their foreign equity was allowed. Moreover the equity participation by foreigners was to be encouraged not only in the case of new collaborations deals but also in the case of existing Indian enterprises which till now had either technical collaborations only or had bought outright high technology from foreign sources. These policy reforms marked a significant departure from the past and continued in 1990s.

(ii) Post-1991 policy

The time period after June 1991 saw implementation of stabilization and structural adjustment policy. Changes in foreign investment policy were an important part of the liberalization process in India. It is worth while to understand the circumstances leading to a structural reforms in India.

The fiscal deficits had gone up from Rs.8887 crores in 1980-81 (5.7% of GDP) to Rs.44650 crores (8.3% of GDP) by 1990-91 [19] The foreign exchange reserves had declined to a bare $1.1 bl. at the end of June, 1991, from $33.68 bl at the end of March, 1990.[20] In such a situation of adverse balance of payments affected by lower value of export, insufficient growth of invisible foreign exchange earning and increase outflow on account of external debt servicing, the authorities were left with no alternative but to attract foreign investment on an increased scale by overcoming the hurdles hampering the growth of foreign investment in India. Foreign investment was stressed not only because it supplements domestic saving to achieve a higher level of investment but also because it facilitates import of capital goods and technology, which are not available domestically. Private foreign investment also helps to overcome the deficit in balance of payment. The government had thus, announced a series of measures designed to attract larger volumes of foreign investments by simplifying the rules and procedures and making the terms offered to foreign investors more in tune with current practises the world over. The policies related to foreign investment adopted in India are as follows :

(a) Policy changes related to Foreign Direct Investment (FDI)

- Under the new investment policy, automatic approval of FDI upto 51% equity holding in 34 high priority industries and trading companies primararily engaged in exports were to be granted.[21]
- A special empowered board known as Foreign Investment Promotion Board (FIPB) has been setup to negotiate with large industrial firms abroad to attract foreign investment. The FIPB is now empowered to clear projects involving foreign investments upto Rs.600 crores For proposal above Rs.600 crores, will the referred to the Cabinet Committee of Foreign Investment (CCFI). The FIPB provides a single window clearance for all aspects of projects proposals considered by it.

- Furthur, a Foreign Investment Promotion Council (FIPC) has been setup for promoting foreign investment in India keeping in view the objectives of attracting of at least $10 bl p.a. The FIPC will conduct road shows and seminars abroad to achieve this objectives.
- The use of foreign trade marks, brand name on goods for sale within the country has been permitted.
- Automatic clearance for foreign equity investment upto 75% for a specific list industries
- Conditions of balancing capital goods import with foreign equity has been abolished.
- Except for 22 industries in the consumer goods sector, the stipulation that dividend remittance of companies must be balanced by export has been scraped.

In India there are generally three routes through which foreign direct investment is approved. The routes and its characteristics are given below :

Box - 4.1 Routes through which Foreign Direct Investment is approved in India.

RBI's Automatic Approval Route	For Joint-ventures in 35 sub-groups identified in the IPR of 1991, for equity upto 51%
FIPB/ CCFI	For Joint-ventures of more than 51% of foreign equity or if the industries is not included in the automatic approval list. FIPB recommends cases where the total investment proposed does not exceeds Rs.600 crores. For proposals above Rs.600 crores, the CCFI clears the proposals.
NRI Investment Route	There are number of special schemes for NRI's that allow them to invest in India

Source : Indian Express, 14-08-1996

(b) Policy changes related to portfolio investment

Apart from FDI, portfolio investment is another source of garnering international funds for developing countries like India. Unlike official debt, returns accruing to PI fluctuate with cyclical fluctuations in the economy, making the cost of PI much less than official flows.

The Indian government during past couple of years announced a series of measures to make the Indian Financial Markets more attractive and capable of raising a large scale resources from the domestic as well as foreign markets. These measures includes the abolition of CCI, establishment of SEBI, permission of raise funds in the international market through global issues by Indian and permission to Foreign Institutional Investors (FII) in Indian captial market. The policy changes related to global issues and FII are as follows :

- Global issues

The liberalisation process in India in its wake brought in a new source of finance for Indian companies in the form of global issues. These issues can be classified under three categories :

- Global Issues,
- Euro-Issues, and
- American Issues.

The characteristics of the above three issues are given below :

Box - 4.2 Characteristics of Global Issues

Global Issues	Euro-Issues	American Security & Exchange Commission Regestered Issues
More than one geographical tranche world wide issues excluding USA	Generally unrestricted international distribution excluding USA	Generally unrestricted issue to the institutions and retail investors in USA
Placement permitted in USA if registered with Security and Exchange Commission	Private placement with qualified institutioal buyers (QIB). QIB are institutionals buyers which own and invest at least $100 ml in eligible securities.	-
Listing of securities on International Stock Exchanges	Generally listing on Luxemborg Stock Exchange	Generally listing on The New York or on American Stock Exchanges

Source : Iyer. V.L : A practical handbook to Public and Euro-issues, Taxman Allied Services (P) Limitied, New Delhi, 1996, p.p.: 208-219.

The different types of securities which can be issued under the above three categories and their major charateristics are described below :

Box - 4.3 Characteristics of Securities Issues Under Global Issues.

Types of Securities	Characteristics
Equity	Simple issue of equity shares eligible for dividend and voting rights
Global Depositary Receipts (GDR's)	The equity share represented by these depositary are issues to a depositary bank. The bank issued GDR's to foreign investors in US $. The transfer of GDR's are affected through the mechanism of international clearing systems.
American Depositary Receipts (ADR's)	They are similar to GDR's but are issued by a company in India in the USA
Euro-bonds	They are in the form of debt instruments issued in European markets.
Euro-Convertible Bonds (ECB's)	They have a maturity between 5 - 10 years. Investors have the call options attached to the bonds to force conversions once share price reaches a certain limit.

Source : Same as Table 7.2

- Foreign Institutional Investors (FII's)

In his budget speech on 29th Feb., 1992 the then finance minister Dr. Manmohan Singh had said that the government would consider ways of allowing foreign institutional investors such us mutual funds, pension funds, investment trusts, to investment in India's capital markets. Consequently the guidelines governing FII, announced on 14-09-92, opened the doors for FII's to invest in India's capital market. In 1994, the government announced some new measures for FII's which included the extension of the rate of tax of 30 p.c in respect of short- term capital gains and permission to foreign brokers to do business in India on behalf of FIIs.[22]

This is drastic departure from pre-reforms period because certain new avenues were opened like the allowing majority participation above 51% even though FERA was still in force. In addition to this new sources of private foreign finance like global issues were permitted

In sum, from the discussion above it can be stated that three distinct phases are discernible in the Indian government's attitude toward PFI : the period from independence upto the late 1960's which characterized by gradual liberal policy the period late 1960's to 1980, which featured a restrictive stance and 1980 onwards which once again proclaimed a liberal policy. It is in this context that a profile of growth of foreign investment in India is hereafter examined.

II

GROWTH PROFILE OF PRIVATE FOREIGN INVESTMENT IN INDIA

The foregone discussion on the Indian government's policy towards foreign investments gives an indication that the policies followed in India have been selective and varying over the years. In this context the impact of variation in official policy on the magnitude, composition and patterns of PFI needs to be examined which is attempted below :

A. GROWTH PROFILE (1948-93)*

1. Magnitude of Private Foreign Investment

In June 1948 the stock of private foreign investment in India was Rs. 256 crores.[23] Thereafter the outstanding value of PFI steadily increased to Rs. 680 crores in 1961, Rs. 2219 crores in 1968 and Rs. 57273 crores in 1993 (vide T. 4.1). If the addition to the stock of private foreign investment is considered it can be noted the inflow amounted to Rs. 1287 crores between 1948 and 1968 representing an increase of about 500 p.c. Between 1968 and 1980, however the stock of PFI increased by Rs. 676 crores i.e., only 44%. Further during 1980-93 in a time period of only 13 years the stock of PFI increased by Rs. 55054 crores. Thus during the first phase (a phase of liberal policy 1948-68) the inflow was much higher as compared to the second phase (1968-80). During this period the policy was somewhat restrictive especially after the enactment of FERA in 1973. Similarly, during the third phase (1980 onwards) liberal policy was once again set into motion by the government. consequently, the inflow was the highest witnessed during any period (about 2500%). As it would be seen later an extremely remarkable increase in inflow of PFI took during the post 1991 period. For example between 1991 and 1995 the increase came to about 3000%. The pattern of PFI as described above leads one to conclude that the government's policy had a bearing on PFI in India.

* Similar data for discussing the profile of growth are available upto 1993 only in RBI surveys. Data on PFI after 1993 are available in GOI's economic surveys and other sources in a different form. For the sake of uniformity in data and comparison, the growth profile in the post reforms period is considered from 1990-91 and is discussed separately in section - B of this chapter.

Table 4.1 : The Stock and Flow of Private Foreign Investment in India.

(Rs. crores)

Period	Stock of PFI	Inflow of PFI
June 1948	255.9	
		423.9
Dec. 1961	679.8	
		863.0
March 1968	1542.8	
I Phase		
1948-68	-	1286.9
March 1974	1978.0	
		240.8
March 1980	2218.8	
II Phase		
1968-1980	-	676.0
March 1990	27423.0	
		29850.0
March 1993	57273.0	
III Phase		
1980-93	-	55054.2

Source : Compiled from Annexure - I.

2. Behaviour of Retained Earnings in Private Foreign Investment

Retained earnings become relevant in the growth of PFI in direct form.[24] The government's policy not only affects the flow of PFI but its also influence the growth of PFI in direct form particularly through reinvestment of retained earnings.

During 1948-68, the share of retained earnings in the gross inflow was about 47%, (Vide T 4.2) Whereas during 1968-80, retained earning constituted almost 88% of the inflow. Although in the post 1980 the relevant data are not available for the full period on a continuous basis the data available for 1986-87 show that once again the share of retained earning reached a low level. Thus when restrictions were placed on equity holding and on repatriation (1968-80), the share of fresh inflow was very small, the bulk of the flow was accounted by reinvestment of profits by existing companies.

The conclusion towards which the discussion leads to is that a restrictive policy adopted by Indian government has not only affected flow of PFI to India but also the form of inflow i.e., new investment or reinvestment. Reinvestment may not add directly to the total resources. It may even increase the country's burden on BOP account

Table 4.2 : The Share of Retained Earnings in the Flow of Foreign Direct Investment in India.

(Rs. Crores)

Period	Gross Inflow 1	Retained Earning 2	2 as % of 1 3
1948-1968	411.3	192.2	46.7
1968-1980	601.2	528.0	87.8
1986-1987*	177.0	100.0	56.0

Source : Various issues of RBI Bulletin.
* Retained earning as a % of gross inflow has been published only for 1986-87.

3. Composition of Private Foreign Investment

Government's policy not only determines the magnitude but it also influences the composition of PFI. On the basis of ownership control, PFI can be classified into (I) Direct Investment (FDI) (2) Portfolio Investment.[25] An analysis of relative of each of these two types shows that bulk of PFI was in direct form in mid-1948 (82%, vide T. 4.3).

In 1968, FDI comprised 46% of PFI. It should be noted that FDI showed a constant decline. Its share came down from a high 82% in 1948 to 46% in 1968 to as low as 8% in 1993. This brings out the fact that foreign investment had a tendency to shift from direct form to other forms. From the standpoint of economic development of a country it is direct investment which can ensure the establishment of industrial base in the country. A possible reason for this decline in the importance of FDI in India might be the large risk involved in the case of FDI. As the foreign companies are required to operate in a less familiar political and regulatory environment, they might have shown greater preference for quick yielding other forms of investment.[26]

In India since independence foreign direct investment has been considered as an important means of acquiring the latest technology particularly in industry where indigenous technology is not available. Here it is pertinent to note that in 1949, P M Nehru stated that objective of regulation of PFI should not only be the utilisation of foreign investment for angmentation of saving but also for securing scientific, technical & industrial knowledge The 1956 IPR further reiterated this point. By mid-60's with the broadening of manufacturing base of the economy, and availability of domestic technical know-how, the official policy, came to relate the role of PFI to its capacity to bridge the foreign exchange gap.[27] Consequently since 1968 the share of other investment capital increased. (Vide T.4.3) Further, the beginning of the eighties, witnessed a distinct change in the country's foreign investment policy, accordingly foreign investment in portfolio .form was also permitted on a larger scale by the government. One of the most important decisions take during the eighties related to liberalised facilities offered to NRI's under which they were allowed to invest in Indian companies even without bringing in technology.[28] As a consequence of this change in policy, portfolio equity investment increased substantially. At the end of March 1980, the outstanding value of portfolio investment amounted to only Rs. 122 crores but in March 1993 it increased to Rs. 1760 crores recording a rise of more than 1000 p.c..

The relative share of foreign currency borrowing in the form of buyer's credit, suppliers credit, syndicated loans and issues of securities have also went up since 1980. This is a direct fall out of the Indian government's policy of tapping international capita market since Sixth Five Year Plan as the requirements of foreign capital to overcome BOP deficit increased.[29]

Thus, over the years the Indian policy toward PFI accentuated the general tendency toward reducing the importance of FDI in India.[30]

Table 4.3 : Composition of Private Foreign Investment in India (Outstanding value of investment).

(Rs. crores)

Sr No	Type of Investment	June 1948		Dec 1961		Dec 1968		March 1980		March 1993	
		value	% of total	value	% of total	value	% of total	value	% of total	value	% of total
1	**FDI**	211 1	82 5	527.2	77 6	701 2	45.5	933.2	42 1	464 3	8 1
a)	Branches	162.1	63.3	270.3	39 8	259 1	16 8	60.4	2.7	NA	NA
b)	FCRC	49 0	19 2	256 9	37 8	442 1	28 7	872.8	39 4	NA	NA
i)	Subsidiaries	NA	-	206 9	30 4	324 7	21 0	454 6	20 5	NA	NA
ii)	Others	NA	-	50 0	7 4	117 4	7.7	418 2	18 9	NA	NA
2	**Other capital investment**	44 8	17.5	152.6	22.4	841 6	54 5	1285 6	57 9	52630	99 9
a)	Portfolio equity investment	43.8	17.1	44 3	6.4	75 2	4 8	122 4	5 5	1760	3 1
b)	Portfolio creditor investment	1.0	0.4	108 3	16 0	766.4	49.7	1163.2	52.4	50870	88.8
i)	Securities	-	-	9 0	1 3	11 3	0.7	19 1	0 9	NA	NA
ii)	Loans	1 0	0.4	99 3	14 7	495 3	32.1	926 1	41 7	50870	88 8
iii)	Suppliers credit	-	-	-	-	209 8	16 9	218 0	9.8	NA	NA
3	**Total (1+2)**	**255.9**	**100.0**	**679.8**	**100.0**	**1542.8**	**100.0**	**2218.8**	**100.0**	**57273.0**	**100.0**

Source : Compiled from A.2 & A.3

4. Forms of Organisation

One may argue that the official policy not only influences the composition of PFI but also the forms of organisation such as branch or subsidiaries.[31] This type of argument necessitates an examination of the impact of policy changes on the organisational form of foreign enterprises in India. At the end of June 1948, the relative share of branch form of investment in the outstanding value of PFI was 63% but it declined to 17% in 1968 (vide T.4.3). This decline occured because of

a) Overall decline in the relative importance of FDI in private foreign investment.

(b) It is also possible that FERA led to decline in importance of FDI in India. This is so because of the indianisation of branches, which was a dominant form of FDI in post independent period. (c) The share of plantation sector, which was the dominant sector in branch form, declined in relative terms. For instance the share was about 20% of the FDI in 1948, but in 1968 it declined to 15% (vide A-4).

It needs to be mentioned here that in plantation sector, land and labour or more important factors of production that capital and technology, therefore external economies arising from the growth of PFI in this sector will be of minor importance. Further, an element of foreign monopoly in a primary goods exporting countries like India may make the terms of trade unfavourable.[32] Thus on the ground of national interest this trend of a relative decline in the share of plantation sector in branch form of FDI ought to be welcomed. Since 1968, especially after 1973 (Post FERA period) the decline in relative importance of branch form in the total outstanding value of PFI accelerated. For instance, its share came down to a low 2.7% at the end of March 1980 (vide A-4). The share of branch form in the total outstanding value of FDI declined from 76% in 1948 to 6.4% in 1980 (vide A-4).

As far as subsidiary form of FDI is concerned at the end of June 1948 the relative share of this form in the total stock of PFI was 28% which fell to 21% in 1968 and further to 20% in 1980 (vide T-4.3), a large part of the subsidiary form of investment was accounted by joint ventures.

Major cause of this decline in the relative share of both branch and fully controlled subsidiary form of FDI can be attributed to the promulgation of FERA in 1973.[33]

Section 29 of this Act directly referred to the operations of branches and subsidiaries of foreign companies in India. According to this section all branches of foreign companies were compelled to convert themselves into Indian companies with atleast 60 p.c. local equity participation Furthermore, all subsidiariary, were expected to bring down the foreign eqiuty share to 40 p.c. or less. Thus, the implementation of this provision of FERA affected the flow of direct investment to India in a negative way, primarily because created among potential foreign investor, an image of India as a hostile host country[34] this way the government policy of generally disallowing sole venture and majority participation to prevents foreign domination which may be detrimental to the country's interest, led to decline in the importance of branch and subsidiary of FDI.

5. Pattern of Investment (Industry-wise)

At the time of independence the pattern of PFI in India was typically colonial in nature. Plantation and Trading accounted for about 40% of PFI in 1948. This pattern of Investment was oriented towards specialization on export of food and raw materials. Apart from making the terms of trade unfavourable, the colonial pattern of investment transfered benefits of PFI from India to the investing country i.e. Great Britain. It also adversely affected the economic development of India because it diverted the country into types of activity offering less scope for technical progress and internal and external economies of scale.[35] It is due to these reasons that in the post-independence period the Indian government attempted to change the pattern of foreign investment in broad conformity with the objectives of planned economic development. A panoromic picture of the industry wise pattern of PFI in India is shown in T.4.4 [36]

Table 4.4 : Industrywise Stock of Private Foreign Investment in India.

(Rs. crores)

	Industry group	June 1948		Dec. 1961		Dec 1968		March 1980		March 1992	
		value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total
1.	**Plantation**	**52.3**	**20.4**	102.4	15 1	122 5	8.1	49 0	2.2	359.0	0 7
2.	**Mining**	**11.5**	**4.5**	12 4	1 8	9 6	0 6	11 1	0 5	707 0	1 3
3	**Petroleum**	**22.3**	**8.7**	152 5	22 4	196 4	13.0	47 3	2 1	10779.0	20 1
4	**Manufacturing**	**71.0**	**27.8**	295 0	434	821 6	54.3	1091.0	492	14259 0	26.6
a)	Food & Beverag	10 1	3 9	36 1	5 3	44 1	2 9	44 2	2 0	334.0	0 6
b)	Textile Products	28.0	10 9	21 4	3 1	66 4	4 4	53 0	2 4	896 0	1 7
c)	Transp equip	1 0	0.4	13 0	1.9	84 8	5.6	81 6	3 7	1472 0	2 7
d)	Mach & Tools	1.2	0 4	14 0	2 1	49 6	3.3	114 0	5 1	704.0	1 3
e)	Metals & Metal products	8.0	3 1	95 1	14 0	155.3	10.3	157.3	7 1	5017 0	9 4
f)	Elec. goods	4 8	1.9	14 8	2 2	64 7	4.3	113.0	5.1	1677.0	3.1
g)	Chemicals & Allied	8.0	3.1	54 1	8 0	241 9	16.0	394 4	17 8	2490.0	4 6
h)	Misc	9 9	3.9	46 5	6 8	115 3	7 6	133 7	6.0	1668.0	3 1
5	**Services**	**98.8**	**38.6**	117 5	17 3	362.7	7 6	1019 6	46.0	27550.0	51 3
a)	Trading	43.1	16.8	29 3	4 3	53.6	3.5	25 4	1.1	72 0	0 1
b)	Const & Utility	31 2	12 2	56.5	8 3	221 9	14 7	642.2	29 0	11676 0	21 8
c)	Financial	6 8	2 7	12 4	1 8	96 1	6.4	373 7	16 8	15277 0	28 5
d)	Misc	17.7	6 9	19 3	2 8	21 1	1.4	14 7	0.7	525 0	1 0
6	Total	255.9	100.0	679 8	100 0	1512 8	100.0	2218 0	100 0	53654.0	100.0

Source : Compiled from A.6

The above table shows that although the stock of PFI in plantation and mining sector increased in absolute terms from Rs. 53 crores in 1948 to Rs. 1066 crores in 1992, its relative share in PFI declined from 20% in 1948 to 8 1% in 1968 & further to 0.7% in 1992 in the case of plantation sector. This implies that the pattern of PFI in India is shifting away from a colonial pattern to a pattern more in tune with the development priorities and also kept pace with structural transformation of the Indian economy

The share of petroleum sector in the stock of PFI substantially increased from 9% in 1948 to 13% in 1968, thereafter its share declined to 2% in 1980. To a certain extent this falling trend is explained by nationalization of foreign oil companies. In the period just after independence oil industry in India was overwhelmingly controlled by foreign companies like Caltex and Burma-shell.[37] The government in India attempted to change this situation by negotiating with these companies to use more local resources and to enter into partnership with local business houses. However during the fifties, none the major oil corporations allowed any local equity participation. This was due to the fear that Indian stock holders might interfere with company's operation. The ultimate outcome of the confrontation between the government and multinational oil companies was their nationalization in 1976, as a result nearly the entire petroleum sector came under the government control.[38] It is this factor that led to a decline in the petroleum sector's share in the stock of PFI during the period before 1980.

However, during the early 1980's a growing demand for fuel in India compelled the government to again invite foreign oil companies to participate in the development of the petroleum sector. The Indian government offered concessions to foreign companies in the form of equity participation of more than 51 per cent, investment allowance, tax holiday, consequently the share of petroleum in the stock of PFI rose substantially to 20% in 1992. Viewed in retrospect, this policy change did not amount to a deviation from the self-reliance policies of the earlier period. It merely constituted a modification foreign companies were still not allowed to attain dominance of earlier period.

It was manufacturing sector that accounted for the one of the largest share in outstanding value of PFI. Its relative share was about 27% at the end of March 1948. The relative share of manufacture in PFI continuously increased till the end of March 1968, when it accounted for about 54.3% of the stock of PFI in India. Since 1968, however, manufacture declined in importance. In 1980 the share of this sector fell to 49% of the total outstanding value of PFI in India. Further in 1992 the share fell to 27% Two reasons can be cited for this decline. Firstly, over the years the importance of PFI in direct forms has fallen. As manufacturing sector accounted for largest portion of direct investment, the relative share of this sector also declined. Secondly, it may be related to growth prospects and business opportunities. For instance, during the period 1951-68 the industrial growth averaged 7.7 p.c. p.a, however during the period 1970-80 the growth rate averaged about 4.8 p.c. only,[39] and with the passage of time among the manufacturing sector, foreign investments were directed at technology-intensive sectors, such as machinery and machine tools, chemicals and allied products (in particular medicines and pharmaceuticals) transport equipments and metals. In June 1948 these four broad sectors accounted for about 25% of foreign investment in manufacturing sector (about 7% of the outstanding PFI), while foods, beverages and textiles product, accounted for more than 54% of the investment in the manufacturing sector (14% of PFI). The share of the above four mentioned sectors (machinery etc.) in manufacturing increased to 65% in 1968 (54% of PFI).

To put the same thing differently during 1948-68, the share of manufacturing sector in general and chemicals, metals, machine tools in particular witnessed an increase in importances. These developments occurred in accordance with foreign investment policy of India, which assigned foreign capital the role of securing scientific, technical and industrial know-how.[40] Thus the liberal phase (1948-68) coincided with changes in the industry wise pattern of investment.

As noted earlier during second phase (1968-80) the growth of PFI declined. Even the share of manufacturing in the oustanding value of PFI registered a decline. It has been pointed out earlier in connection with composition of PFI in India that the importance of manufacturing vis-a-vis PFI declined during the second phase not only due to FERA but also because the manufacturing sector had already been broadened enough.[41] Nevertheless within the manufacturing sector the relative share of chemicals, metals, machinery & tools, transport equipments increased as compared to what it was in the first phase. Thus, the share of above mentioned four sectors in foreign investment in manufacturing sector increased from 65% in 1968 to 69% in 1980.

Here it should be noted that not only manufacturing sector has a high linkage effect, in the manufacturing sector - chemicals, machine tools, metals have the highest linkages.[42] In a developing country the economic rationale of seeking PFI is not simply to meet the financial capital requirement but also it should be allocated in such a way that it generates more investment and output through linkages

Recognizing this fact, the Indian government notified these industries in the list of 19 industries (Appendix -1 industries) as core industries of importance to the national economy, in the industrial policy announced in 1973.[43] Consequently, in the second phase when the liberal attitude of the state had yielded place to strict controls and the broad policy had been to restrict the area of operation of foreign firms, industries like chemicals, metals etc. were exempted from FERA guidelines. The government allowed a majority foreign equity in these industries, because they were of national importance since can it help to bridge important technological gaps, boost export or achieve the objective import substitution.[44] It is due to this exemptions that foreign investment in chemicals etc. as a proportion to foreign investment in manufacturing sector went up between 1968 and 1980. In the post-1991 liberalization period the list of industries reserved for automatic approval of 51 p.c., industries with high linkage effects dominated, for instance, during 1991-95 fuels, chemicals metallergical equipment accounted for more than 52% of Rs. 52171 crores worth of approvals.[45] This indicates greater possibility of growth effects by foreign investment From the discussion above it may be concluded that official policy has guided the bulk of PFI flow to technology intensive areas of manufacturing, thus helping technological upgradation.

Although, the above pattern in the sectoral allocation of PFI within the manufacturing is in keeping with official preferences it may not necessarily be a result of Indian government policy alone. It could perhaps he related to change in business opportunities also. It is of interest to note that the sectors like chemicals and allied industries which have attracted substantial PFI in the recent past are also those with the highest growth rates during the last decade.[46]

As far as service sector is concerned, one finds that in 1948 the share of this sector in the stock of PFI was almost 39%, trade accounting for the bulk of investment. Even though its share declined to 24% in 1968, thereafter it increased to reach in level of 52% in 1992. A close scrutiny however reveals that the increase in the relative share of service sector was mainly due to the marked increase in foreign currency loans obtained by this sector, and not due to increase in direct investment. This can be inferred from table 4.3. Since 1980 the approval granted by the government for raising loans abroad has gone up substantially.[47] The financial and transport sector which accounted for more than 60%, of oustanding value of foreign currency loans in 1992, were allowed to raise foreign loans for two reasons :

(a) Indian financial institution contracted these loans for lending to Indian sub-borrowers, who would not have been able to borrow abroad themselves at such a competitive interest rates as was offered to the financial institutions.[48]

(b) The transportation sector (airlines) were allowed to raise loans so as to enable them to acquire latest aircrafts with the objective of raising the share of Indian companies in international passenger and foreign traffic.

6. Pattern of Investment (Countrywise)

The analysis of countrywise investment pattern (vide table 4.5) reveals that at the end of June 1948, the UK had adominant share (80%) in PFI. It continued to remain the single most important source of foreign capital for private sector in India, accounting for more than 40% of outstanding value of PFI till 1968. A major part of this investment was in direct form and manufacturing sector accounted for 32.6% of the UK's total investment. Almost the whole of foreign investment in India in the plantation sector was from U.K Over the years the share of UK in total PFI has declined in relative terms reaching to a level of about 30% in March 1980 and 15% by the end of March 1992. But still it remained one of the largest contributor. The main reason for predominant share of UK in total PFI can perhaps be traced to old ties between the two countries.

The USA came next accounting for 4.4% of the total investment at the end of June 1948. The manufacturing and petroleum sector accounting for a major share of this investment (98%). However, although in 1980 it retained its second position in 1992 it slipped to third position behind Japan, UK in that order. Among the other countries the share of West Germany has been increasing in relative terms. In 1948 the share was only 3.1% but increased to 8.2% in 1992. The manufacturing sector accounted for about 80% of total investment followed by the service sector like shipping etc. The share of other developed countries like Italy and France has remained almost constant.

Of late, the Japanese investment has shown as substantial rise. In 1948 it amounted to about 3% of total investment, in 1992 it reach a level of 23%. Most of the Japanese investment is accounted by other capital like foreign currency loan and credits (23%). Of the total direct investment a major share is accounted by the manufacturing sector in equity form. The share of international institutions like I.B.R.D. and I.F.C. increased slightly from 5% in 1970 to 12% in 1991. These institutions mainly invested in manufacturing and service sector in the form of portfolio investment and foreign currency loans.

An important feature of PFI in India is that some Asian countries like Singapore, South Korea and Middle East countries also had a sizeable share apart fonn the advanced countries especially in the portfolio form of investment. Mainly due to the presence of NRI's in these countries.[49] In 1992 Singapore accounted for about 5% of total PFI.

It may be inferred from the above that the importance of U.K. as a supplier of technical know-how has been on the decline over the years, though it still plays an important role in this regard. The significance of USA as a provider of know-how is rising, whereas Japan's importance in post 91 era has increased tremendously.[50]

Table 4.5 : Countrywise Stock of Private Foreign Investment in India.

(Rs. Crores)

Country	June 1948		Dec 1961		Dec 1968		March 1980		March 1992	
	value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total
U.K.	206 2	80.1	446 2	65.6	625 5	40 5	659 8	29.7	8015.0	14 9
U S.A.	11.1	4.3	95 9	14 1	422 30	27 4	591 8	26 7	5554 0	10 5
Japan	7 0	2.7	3.2	0 5	82.5	5.4	31 9	1.4	12264 0	22.9
Germany (W)	8 0	3 1	10 7	1 6	100 2	6 5	245 2	11 0	4410 0	8 2
Italy	NA	-	4 1	0 6	40 1	2.6	35.6	1 6	304.0	0.6
France	NA	-	0 0	0 0	46 4	3 0	42.2	1 9	575.0	1.1
Int. Institution	Nil	-	0 0	0 0	98 0	6.4	242.6	10 9	6503 0	12.1
Others	13 6	5.3	119 70	17 6	127 8	8 3	369 7	16 7	16019.0	29.9
Total	255.9	-	679.8	100.0	1512.8	100.0	2218.0	100.0	53654.0	100.0

Source : Compiled from A.10.

B. GROWTH PROFILE : (1991-1995)

One of the important milestone in the economic history of India has been the formulation, adoption and implementation of IPR in July 1991. The New Industrial Policy substantially liberalized the provisions and simplified the procedures governing foreign investment in India. The policy was a major departure from the past as it opened new avenues of private foreign finance. It is attempted here to examine its impact on PFI in India.

1. Flow of Private Foreign Investment

Consequent upon the announcement of the new policy there has been remarkable increase in PFI flows, as revealed by table 4.6. The inflow of PFI in 1991-92 was

$158 ml which increased to $ 4895 in 1994-95. Thus during a period of four years the inflow of PFI increased by more than 3000%. The total flow during these four years. (1991 and 1995) amounted to Rs. 30473.7 crores which is more than the inflow of Rs.25205 crores during the last decade (1980-90).

Table 4.6 : Flow of Private Foreign Investment in India.

(US $ ml)

	Category	1991-92	92-93	93-94	94-95	Total
1	**FDI**	150.00 (94.9)	341.00 (78.8)	620.00 (14.5)	1314.00 (26.8)	2425.00 (24.9)
a.	RBI automatic route	0 -	42 (9.7)	89 (2.1)	171 (3.5)	302 (3.1)
b.	FIPB	87.00 (55.0)	238.00 (54.9)	314.00 (7.3)	701.00 (14.3)	1340 (13.7)
c.	NRI	63.00 (39.9)	61.00 (14.1)	217.00 (5.1)	442.00 (9.0)	783 (8.0)
2.	**Portfolio Investment**	8.00 (5.1)	92.00 (21.2)	3649.00 (85.4)	3581.00 (73.2)	7330.00 (75.1)
a.	FII	-	1.00 (0.2)	1665.00 (39.0)	1503.00 (30.7)	3169.00 (32.5)
b	Euro Issues	-	86.00 (19.7)	1602.00 (37:5)	1839.00 (37.6)	3527.00 (36.2)
c.	Others	8 (5.1)	5.00 (1.2)	382.00 (8.9)	239.00 (4.9)	634.00 (6.5)
	Total (1+2)	**158.00** (100)	**433.00** (100)	**4269.00** (100)	**4895.00** (100)	**9755.00** (100)
	Total PFI in Rs. crores*	**386.7**	**1327.1**	**13390.1**	**15369.8**	**30473.7**

Source : Government of India, Economic Survey, 1995-96 .

Note : figures in brackets represent % share in total

* figures are converted at the following exchange rate
1991-92 - 1$ = Rs. 24.474, 1992-93 - 1$ = Rs. 30.649,
1993-94 - 1$ = 31.366 and 1994-95 - 1$ = 31.399.

2. Composition of Private Foreign Investment

An important objective of the liberalization of policy since 1991 was the hope that PFI flows will not only reduce India's dependence on external aid and bridge BOP gaps but also bring in the attendant advantages of technology transfer, marketing expertise and new possibilities for promotion of exports.[51] To examine whether this objective has been achieved or not required an analysis of the composition of PFI.

(i) Trends in Foreign Direct Investment

Table 4.6 shows that of the total inflow of PFI nearly 95% was accounted for by direct investment in the first year of post reforms period. As FDI is generally accompanied by superior technology and the like, it can be stated that the new policy had achieved its goal of promoting technological transfer to India.[52]

However, the share of FDI in total flow of PFI in India declined to about 27% by 1994-95. As mentioned earlier mitigating the pressure on India's BOP was one of the objective of the economic reforms initiated since 1991. A decline in the share of foreign direct investment and consequent rise in portfolio investment's share in PFI may mean that the country has been building up foreign exchange reserves to tackle any future foreign exchange crisis. A large part of the FDI flows have taken place through FIPB route. For instance in 94-95 it accounted for more than 53% of FDI flows in India. As stated earlier the FIPB approves joint ventures of more than 51% of foreign equity (i.e., through subsidiaries). Therefore, an increasing share of this route in FDI may mean a possibility of foreign dominance. But at the same it should be noted that subsidiaries of foreign companies are the main suppliers of advanced technology.

Although FDI flows have increased by more than 850% between 1991 and 1995 ($2425 ml) but when actual flows of foreign direct investment are compared with the approvals, than it emerges that there is a wide gap between the two (vide table. 4.7).

Table 4.7 : Cumulative Approvals and Flows of Foreign Direct Investment in India.

(Rs.bl)

Year	Approvals	Actuals	Actual as a % of approvals
1991	7.4	3.5	47.3
1992	52.6	6.8	13.1
1993	111.9	17.9	16.1
1994	136.0	30.1	22.1
1995	374.9	67.2	18.2
Total	**682.8**	**125.5**	**18.4**

Source : Same as Table 4.6

From the above table it can be seen that, while the cumulative approval of FDI amounted to Rs. 682.8 during the period 1991-95, the actual inflows has been only Rs. 125.5, obviously, the realised FDI is less than 1/4 of the total approvals. Therefore, unless the gap between actual inflows and approval is reduce, the role of FDI in giving a boost to the Indian Economy remains to be seen.[53]

Number of reasons can be put forward for the lack of materialising of approvals into actual investments. These includes cumbersome laws and procedural delays, and extraneous condition like political uncertainty, and lack of clear policies on infrastructure. If the government really wants to attract foreign investment of around $10 bl a year the bulk of which is required to infrastructure sector, it has to help investors overcome the maze of approval and implementation procedures. For instance, the only power project involving foreign investment which has been approved is Enron, which took five years to materialize. Projects proposals involving foreign investment in roads, ports etc. have met similar fate : indecisiveness, confused policies & delays.[54] Thus, to reduce the gap between approvals and actual investment the government requires to send right signals which induces confidence about political and policy stability.

It is also possible that approvals are sought in haste to take the advantage of liberalised atmosphere as a permative measures, while the actual investment decisions are taken at much letter stage. Also, a number of proposals especially related to infrastructure sector, take a long time for formulation and arranging for finance.

Not only there is a wide gap between approvals and actual flows, but when flow of FDI in India is compared with China another emerging market in Asia, it give a dismal picture as revealed by table 4.9.

Table 4.8 : Private Foreign Investment in Direct Form a comparison between India and Chind.

(US $ bl)

Year	Developing Country	India	3 as % of 2	China	5 as % of 2
1	2	3	4	5	6
1990	31266	236	0.75	3487	11.2
1991	39060	145	0.37	4366	11.2
1992	51485	140	0.27	11156	21.7
1993	66600	279	0.40	26000	39.0
1994	81300	346	0.43	31020	38.2

Source : World Bank - World Debt Tables (1995-96)

Thus, from the above it is clear that in comparison to China, as a pecentage of the total flows to developing countries India's share is quite meagre. However, the silver lining is that most of the FDI's flows to China is accounted by Non- resident Chinese (77%) especially from Hong-Kong & Macoa, while in case of India, the share of NRI is just 8% during 1991-95 (Table 4.8). Therefore, if the participation of NRI's increases, than FDI flows to India can register an impressive growth in future.[55]

(ii) Trends in Portfolio Investment

During the post 1991 period, new sources of foreign investment was tapped by the Indian government. For example, foreign institutional investors were allowed to invest in India. Similarly, Indian companies were permitted to raise finance from foreign market through Euro-issues for the first time in the history of foreign investment in India. Portfolio investment for the period between 1991-1995 amounted to about \$7330 ml which represented 75% of the total flow of PFI. The FII explained 32.5% of foreign investment and 43% of portfolio investment. Foreign Institutional Investors commenced their operations in India from 1st quarter of 1992-93 with Jordan Fleming, Morgem stanley and Foreign & Colonial picking up stocks totalling \$ 1ml. By the year 1994-95 the flows through this route amount to more than 43% of the flows of foreign investment in portfolio form. Here it should be mentioned that some people regard the foreign investment through this route as "hot money" in the sense that it is of speculative and volatile nature and therefore it can take flight in a period of political and economic uncertainty.[56] It is argued that it was not wise on the part of the Government of India to permit this form of PFI on such a large scale because this has only strengthened the foreigners to control and manipulate the Indian Stock Markets to their advantage. Therefore, such a course of action will be detrimental to interest of the country. To substantiate this arguement, the example of Mexico is quoted where economic slump and devaluation led to exit of foreign capital on a large scale. Will this contention hold true for India? The fears of capital flight from India may not be justified at present time, as noted below :

India's finanancial position is much stronger than that of Mexico, for instance, India has a total foreign exchange reserves of about \$20 bl to cover more than ten month of imports as against Mexico's reserves of about \$6.3 bl which was sufficient to cover only two months of imports. Similarly, the domestic savings rate in India (20% of GDP) is higher than Mexico's saving rate (16% of GDP). Not only, this in the recent past the investment climate in India has improved rapidly and the country's now better placed than other emerging markets in terms of risk taking. This is proven by the fact that lot of risk analyst the world over are now giving a good investment ratings' moreover portfolio are made to derive capital gains.[57] Any sudden withdrawl of this investment from Indian Stock Markets may depress the share price, thereby hurting the foreign investors interests.

Further, according to the Centre for Monitoring Indian Economic (CMIE) which quotes the World Bank, Indian Nationals have $50 bl worth of assets abroad. "These Funds represent the accumulation of capital flight over the post-independence era". It adds "Part of capital presently coming to India through Euro-issues is reverse capital flight of Indian Nationals bringing their asset back into the country to take advantage better investment climate".[58]

In the light of the above, the fears of volatility of portfolio investment in India are unjustified except in the event of significant deterioration in economic fundamental or political uncertainty to which portfolio is sensitive. In near future, therefore, portfolio investment will not be treated as hot money.

As state earlier Euro-issues in the form Global Depositary receipts were one of the new sources of private foreign investment tapped by Indian companies in European markets. This form of foreign investment accounted for about 32% of PFI and 36% of portfolio investment between 1991-95 (Vide T.4.6)

Reliance Industries was the first Indian company to sell GDR worth $150 ml in 1992 in the European market. Initially, the Euro-issues of Indian companies received a lukewarm response posibilly due to unfamiliarity with Indian issues and a bearish phase in the market at that time.[59] The Reliance issue was followed by GDR's issued by Grasim Industry, but it also failed to live up to expectation. However, from 1993 onwards the situation changed for better and till date approximately 63 Indian issues came to the market raising about $6000 ml and most of the larger issues are trading at premium as shown in the below table :[60]

Table 4.9 : Top GDR Issues as on 1.12.95.

Companies	**Premium/ Discount to Issues Price (%)**	**Size ($ ml)**
Reliance Industry	8.0	150
Hindalco	134.0	172
SAIL	-30.0	125
Ranbaxy Lab.	25.0	100
Mahindra & Mahindra	156.0	75
TELCO	38.0	115
Bajaj Auto	40.0	110

Source : Compiled from Economic Times, 02.12.95.

3. Industry Wise Pattern of Investment

As stated earlier under the new policy the main objective was to attract foreign investment in high priority industries and to allow inflow of foreign capital and technology in critical areas of the economy. A perusal of Table 4.10 belows shows in terms of approvals the post 1991 reform policy has succeeded in directing PFI to high priority areas of the economy.

Table 4.10 : Sector wise Foreign Investment Approval (August 91 - Dec. 1995)

(Rs. crores)

Sector	Amount in value	Approval % of total	No. of approvals
Telecommunications	18022.0	30.3	241
Fuels	11702.7	19.7	170
Metallurgical ind.	4096.8	6.9	312
Chemicals	3559.4	6.0	852
Service sector	3194.2	5.4	273
Transport	2974.7	5.0	367
Elect. equip.	2769.8	4.7	1368
Food processing	2331.9	4.0	459
Hotel & Tourism	1896.4	3.2	141
Texties	1563.6	2.6	293
Misc.	7364.0	12.2	3345
Total	**59475.5**	**100.00**	**7821**

Source : The Economic Times, 13-08-1996.

The above table shows that Telecommunication together with fuels accounted for more than 50% of the total approvals. Metals and chemicals accounted for 13% of the approvals. Thus during the post 1991 period, the industry wise trend in foreign investment is similar what is was during the decade 1980-90. To put it another way it can be stated that the policy followed by government since 1991 has succeded in directing foreign investment toward priority sectors.[61]

4. Countrywise Foreign Investment

The analysis of countrywise approvals of foreign investment (Vide T. 4-11) shows the USA on the top of list accounting on for Rs. 14710 crores of the approvals. The USA became the single largest country to invest in India in the post 1991 period. During the 1991-95 Israel started playing an important role in foreign investment in India. This may perhaps be attributed to improvement of political ties between India and Israel in the recent past. The slide of UK continued as before. Still it remains one of the largest investor. Some new Asian countries like Mauritius and Thailand also made significant contribution.

Table 4.11 : Top 10 Foreign Investors in India (Cummulative Foreign Investment Approval) 1991-95

Country	Rs. Crores	% of total
U.S.A.	14710	40.1
Israel	4141	11.3
U.K.	3781	10.3
Japan	2821	7.6
Mauritius	2414	6.6
Thailand	2349	6.4
Germany	2082	5.7
Netherlands	1628	4.4
Switzerland	1405	3.8
Canada	1398	3.8
Total	**36729**	**100**

Source : Same as Table 4.10.

It can be inferred from the about that India is on the move. The economic liberalisation process has produce some tangible results, better atmosphere appeares to have been created for newer sources & form of PFI and the investors have respondent positively. However, there still exist a gap between approvals and actual investment and India has been lagging behind countries like China. Here it is pertinent to note that China obtains 13% of its investment from foreigners while India gets less than 1%. China's cummulative foreign investment till date is $120 bl versus India's $12 bl.[62] To carve out a place for itself, in future, therefore, India has to put its policies in proper perspective

III

CONCLUSION

The foregone discussion suggest that government of India has been pursuing an ambivalent policy towards foreign investment. Sometimes it has been tolerant towards PFI at times it has adopted an antogonist approach. Considering the ambivalence it is convenient to discuss the government's policy in three phases.[63] The first phase from 1948 upto 1968 was marked by a liberal attitude towards foreign investment. The official policy during this period was enunciated in IPR of 1956. The liberal attitude was mainly influenced by foreign exchange crisis of 1956-57. It was also affected by the perception that foreign capital is an appropriate and necessary sources of capital and technology.

The second phase (1968-1980) saw restriction being placed on PFI by the government, paradoxically, it was again a foreign exchange crisis in late sixties that forced the government to take a restrictive stance. The restriction on PFI especially in direct form may have been prompted by expansion of manufacturing sectors base in India since the mid sixties. The restriction on foreign investment got aggravated further with the enactment of FERA in 1973. This became evident from one of the provision of the Act which reduced the foreign equity holding to a maximum of 40 p.c.

The third phase began in 1980, when foreign exchange crisis surfaced again compelling the government to modify its policy towards PFI. The time period after 1980 witnessed a remarkable change in policy towards foreign investment, especially so after 1991. This period was marked by changes in foreign investment policy as a part of stabilization and structural adjustment policy. This period saw new sources and avenues of foreign investment such as FII and Euro issues.

On the whole it can be stated that Indian government's policy regarding PFI has been ambiguous. Sometimes PFI has been welcome and at times shakled. The variations in the policy are reflected in the growth profile of foreign investment in India.

A perusal profile of growth of foreign investment in India since 1948 shows some interesting features. The changes in magnitude and composition have taken place largely in accordance with the changes in government's policy. The share of foreign direct investment in the stock of PFI shows a declining trend till 1991. In the post 1991 period, once again its share has risen, but still other forms of investment accounted for largest share. A large part of foreign investment in direct form has taken place through FIPB route (i.e. more than 51% foreign equity participation).

Another remarkable feature is that the manufacturing sector along with service sector has accounted for the lion's share of PFI. Moreover in manufacturing sector investment is mainly concentrated in a small number of industries like chemicals, metals and metal products. Similarly in service sector investment is concentrated in transport and financial services. The sectoral allocation of PFI seems to warrant a conclusion that policies of Indian government towards PFI has set in motion a reallocation in favour of core industries. This pattern of investment has continued in post 1991 period also. Although in general the pattern is in keeping with official policy this reallocation may also have been carried out due to favourable business opportunity in India.

Amongst the country U.K. continue to play a dominant role in PFI. In recent years several Asian countries like Singapore and Gulf countries are playing an important role due to sizeable presence of NRI's in this countries.

In sum, PFI in India during the last 50 years has undergone important changes in its pattern and behaviour by moving away from colonial pattern of investment to a type which is conducive to economic development of the country. The changes in foreign investment have been substantially influenced by the government policies which itself has been varying over the years. The trends in PFI after 1991 indicate that if reform process is pursued further in right spirit there is no reason why India cannot attract increasing flows of PFI in years to come.

Notes and References

1. The present study has considered a time period of about 35 years from 1960-61. Nevertheless, it is th'ought as desirable to examine the evolution of policy since 1948 in order to have a better understanding of change in governments attituted towards foreign investment in India.

2. The colonial pattern of foreign investment implies a foreign investment which is concentrated in plantation, extractive industries and processing of raw materials. For instance, in India till mid 1948. Tea plantation and Jute accounted for more than 25% of FDI. See, Kidron, M. : Foreign Investment in India, Oxford University Press, New Delhi, 1965, Chap-3.

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5. Kidron M. : Foreign Investments in India, Oxford University Press, New Delhi, 1965, pp. 102-106.

6 Balasubramanyam V. N : Op. Cit. p 389

7. Kumar N. : MNEs and Industrial Organization - The Case of India, Sage Publications, New Delhi, 1994, p. 23.

8. Bhagwati J. and Desai P : Op. Cit., p. 218.

9. Sengupta N.K. : Government and Business, Vikas Pub. House, New Delhi, 1993, p. 164.

10. Bhagwati J. and Desai P : Op. Cit., p. 218.

11 Sengupta N.K. : Op. Cit., p. 164.

12. Government of India, Press Note, July 20, 1968, Cited in Subramanyam V.N., Op. Cit., p. 390.

13. Here it is pertinent to note that two major foreign subsidiaries 'Coco-Cola' and IBM, which refused to fall in line were eventually forced to wind up their business in 1977. See: Chandra N.K. : "Planning and Foreign Investment in Indian Manufacturing", in Byres T.S. (ed) : The State, Development, Planning and Liberalisation in India, Oxford University Press, New Delhi, 1997, p. 371.

14. Government of India, Ministry of Commerce, Committee on Export Strategy (Tandon Committee), New Delhi, 1980.

15. C.f. : Shukla P.R. & Roy Chowdhry S.K. Multinational Corporations, Technology and Development, Akashdeep Publishing House, New Delhi, 1992, p. 255.

16. See : The Economic Times, 10-12, 1986.

17. Jalan B. M. "Foreign Investment - The New Panacea", EPW, 25-6-88, p. 1309.

18. Malhotra, R. N. : "FDI in India" RBI Bulletin, April 1990, pp. 257-259.

19. GOI : Economic Survey (1996-97)

20. Pasricha J. S. : Liberalisation and Foreign Investment in India in Ramakant Jain S. C. (ed.), Recent Trends in Foreign Investment in India, Pointer Publication, Jaipur, 1996, pp. 53-54.

21. This list of industries eligible for automatic approval upto 51% of equity has been further expanded to contain 13 additional industries in the 1997-98 budget proposal of the current government. See : Mehta A. : "Foreign investment set to surge", Economic Times, 13-08-1996, pp. 1, Special supplements.

22. Further in the Budget proposals of 1996-97, the government permitted FII's to invest in all securities including equity share/debenture of companies which are listed in Indian Stock Markets, within the overall ceiling of 24 p.c. of the total paid-up capital of any company provided the total holding of a single FII in any company does not exceed 10 p.c. of the total paid-up capital.

23 The development since 1948 are referred to briefly as the time from 1948 to 1961 constitute a part of the 1st phase in the evolution of government's policy. This is done for sake completion, comparison and convenience, through pre-1961 time period is not a part of present study.

24. It has been contended that flow of direct investment can occur even without actual inflow through the mechanism of reinvestment of accumulated profit. See Kindle-berger. C.P. : American Business Abroad, Yale University Press, London 1965, p. 4-10.

25. The difference between FDI and portfolio investment is explained in the introductory chapter.

26. RBI Bulletin, April 1991, p. 354.

27. Sengupta N.K. : Op. Cit. p. 164

28. Ibid, pp. 362-363.

29. Ibid, p. 364.

30. A similar conclusion was arrived at by : Martinussen J in : Transnational Corporations in a Developing Country - The Indian Experience, Sage Publication, New Delhi, 1988, p. 144.

31. The choice between Branch and Subsidiary form of Organisation largely rests on fiscal and legal consideration of the respective forms in host countries. c.f. : Wender I.T., "Branches or Subsidiaries - which is the best for whom ? Cited in Subrahamanium K. K. Op. Cit, p. 40.

32. Singer H.W. had succintly summarized how the specialization of less developed countries on export of food and raw materials to the Industralized countries, largely as a result of investment by latter has made the terms of trade unfavourable for developing countries. c.f : The Distribution of gains between Investing and Borrowing Countries, American Economic Review, Vol. XL, May 1950, pp. 477-480.

33. The Implementation of FERA also brought down the number of foreign branches and subsidiaries in India. The number of branches declined from 540 in 1973 to 315 in 1980. Similarly subsidiaries came down from 188 in 1973 to118 in 1980. See : Martinussen. J : Op.Cit p. 158.

34. Here it may be mentioned that PFI is undertaken mainly due to the monopolistic advantages enjoyed by foreign firms. However, as was seen in chapter 3 of this study, restrictive policies of the host government may come in the way of foreign firms ability to enjoy these power, thus affecting the flow of PFI.

35 C.f. : Singer. H.W. : Op. Cit p. 477

36. As the study is based on the data provided by RBI surveys, the industrywise classification is the same as the one adopted by RBI surveys. Further, all enterprises in the petroleum industry irrespective of the exact nature of their activities are classified under a separate category 'Petroleum' although exploration of petroleum is normal included under 'mining'.

37. Martinussen. J : Op.Cit. p. 37.

38. C.f. Vedavalli. R : PFI and Economic Development - A case study of Petroleum in India, Cambridge University Press, 1977. pp. 40-56 and also RBB bulletin, April 1991, p. 357.

39 Goldar B.N : Productivity Growth in Indian Industry, Allied Publications Private Ltd, New Delhi, 1986, p. 98.

40. Dutt R. and Sundharam K.P.M. : Indian Economy, S. Chand and Co. Ltd., New Delhi, 1991, p. 273.

41. Sengupta N.K. : Op. Cit. p. 164.

42. Prasad A.P. : "Foreign Investment in India - Some Basic Facts and Issues", FTR, May 1993, p. 338.

43. Dhingra I.C. : The Indian Economy, Sultan Chand & Sons, New Delhi, 1986, p. 577.

44. Sengupta N.K. : Op. Cit., p. 165.

45. Kumar S : FDI in India, BRP Corp, New Delhi, 1996, p. 104.

46. Martinussen J : Op. Cit. pp. 144-145.

47. RBI Bulletin, Sept. 1996 p. 364.

48. RBI Bulletin, Sept. 1996 p. 432.

49. RBI Bulletin, Feb. 1993, p. 112.

50. As pointed out earlier PFI during post 1991 period is to be discussed separately. The year 1992 has been included here because data from same source (RBI) are available in terms of value of PFI from each country.

51. Nagesh K : Op. Cit., p. 158.

52. Gangadhar V. and Yadagir, M . "Trends in FDI in India", The Chartered Accountant, No.6, Dec. 1995, p. 91

53. Dutt. R. : "Myth & Reality about Economic Reforms", Mainstream, 06-07-1996, pp. 11-12.

54. See : Economic Times, 10-8-96, p. 4

55. For comparison of PFI flows between China & India, data on FDI only is available in the World Bank Debt table.

56. See : Patnaik B.N. & Gahlen P : "Foreign investment and Indian Economy" in : Ramakant & S. Jain (ed.) Op. Cit. pp. 161-163, and Dutt. R. : Op. Cit. p. 12.

57. Ganjoo M. : "India is a better market than China", Times of India, 19-08-96, p.14.

58. Rao B.V.V. : "External value of the Rupee : Aspects of Convertibility" , in Thakor D. (ed.) Globalisation and International Business, Deep & Deep Publication, New Delhi, 1995, pp. 100-101.

59. The appetite for Indian paper seems to be as strong as ever, this is proven by the fact that the GDR's issued by VSNL in March, 1997 totaling $ 450 ml received overwhelming response. Yet, there is apprehension that there may be a possible over exposure and discount in future due to the improper utilisation of the proceeds. See : Times of India, 31st March, 1997.ible over exposure and discount in future due to the improper utilisation of the proceeds. See : Times of India, 31st March, 1997.

60. Pasricha. J. S. : Op. Cit , p. 56

61. A close examination of this list of industries shows that most of the items included were basic and intermediary goods, necessary for India's industrial development and, at the same time, in short supply in the country. c.f : Agrawal H.P : Business Collaboration in India, Aruna, New Delhi, 1979.

62. Quoted in Times of India, 2-9-97, p 10

63. Patel S.J. also identified similar three phases i.e., 1948 to 1964, 1964-79, and 1980 onwards. c.f. : Patel S.J. : Technological Self-Reliance in India, Ashish Publishing House, New Delhi, 1993, p. 85. An identical classification has been made by Subrahmanian K.K in : "Technology Imports Regulation Reduces Cost", EPW , 9-8-1986, p. 1412