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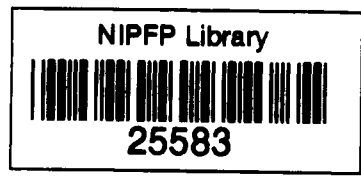
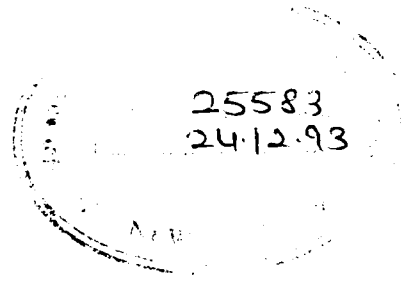


**RECENT INDIAN EXPERIENCE IN
INTERNATIONAL FINANCING**

**SUDIPTO MUNDLE
HIRANYA MUKHOPADHYAY**

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RECENT INDIAN EXPERIENCE IN INTERNATIONAL FINANCING*

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In the aftermath of the second oil shock of 1979, while the international financial system got enmeshed in the debt crisis, India's external account remained comfortable. However, when the world was exposed to a third oil shock following hostilities in the Middle East in 1990, the Indian economy experienced a severe 'liquidity' crisis in its external account. The present paper reviews India's international financing experience during the past decade in an attempt to explain this sharp contrast in the impact of these two oil shocks on India's external financing situation.

1. External Debt and the Liquidity Crisis of 1990-91

The Mexican moratorium on external debt servicing in August, 1982 is usually treated as the benchmark signalling the on set of the international debt crisis. However, its roots lay in the enormous build up of international liquidity and the boom in the EURO dollar market following the first oil shock of 1973, which led to an unprecedented increase in international lending to the developing countries on relatively soft term. Most of this increased lending flowed through private financing channels in the form of syndicated bank loans. Increased competition between banks resulted in

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falling spreads, longer maturities as well as longer grace periods (World Bank, 1992), even as conventional indicators signalled that country risks were increasing, a phenomenon which has been described as 'loan pushing' (Darity, 1985).

There is some ambiguity as to what caused the subsequent turn around in real interest rates. It has sometimes been attributed to a fall in savings rates (International Monetary Fund, 1991). However, it is not clear that there was any marked decline in savings rates in the OECD countries once suitable adjustments are made for capital gains and consumption out of capital gains. Furthermore, even conventional estimates show a rise in personal savings rates in the U.K. and U.S.A. after 1988 (International Monetary Fund, 1992). A more popular view is that interest rates rose in response to monetary contraction in the OECD countries. A third view suggests that it was the stock market buoyancy prevailing at that time which drove up interest rates (Barro, R. and Martin, X. S., 1991; Sen, 1992).

Whatever the underlying cause, there is no doubt that the hardening of interest rates in the early eighties, combined with the slowing down of economic activity, led to a sharp deterioration in the external debt servicing ratios of developing countries, particularly in Latin America.¹ The debt service ratios in Asian countries were typically much lower than the Latin American ratios, which were generally over fifty per cent and India's debt service ratio was among the lowest in Asia (Table 1).

The low ratio of debt service to exports in India in the early eighties is attributable not so much to a low stock of external debt (relative to exports) but to the relatively high proportion of concessional debt in total debt. Thus, at the onset of the debt crisis in 1982 India's external debt stock was 192 per cent of exports as compared to 33 per cent, 125 per cent and 132 per cent respectively for China, Indonesia and Korea.² However, the concessional debt share was as high as 60 per cent in India as against 5 per

1. Trends in the debt-service ratios of some important Asian and Latin American developing countries are presented in Table 1.

2. The Philippines and Latin American countries had much higher debt stock ratios.

cent, 30 per cent and 8 per cent respectively in China, Indonesia and Korea (Table 2). The concessional debt shares were even lower in the Philippines and the Latin American countries.

Thus, the debt service ratio and its underlying determinants were very favourable in India by comparative international standards in the early eighties. At the same time, all these 'country risk' parameters were continuously deteriorating. Between 1980 and 1985 the external debt stock ratio rose from 137 per cent to 210 per cent while the concessional loan proportion fell from 75 per cent to 47 per cent (Table 2). The associated debt service ratio rose from 9.2 to 22.7 over the same period. However average interest rates on fresh commitments by private creditors were coming down and fell quite sharply in 1986 while the average maturity period remained the same as in the early eighties. Thus, the terms of loan seem to have been related more to changing perceptions of 'group risk' for the Asian countries as a whole rather than the 'country risk' for India.

It is an interesting question whether the apparent insensitivity to deteriorating 'country risk' parameters merely reflected inefficiency on the part of international commercial banks or an active policy of 'loan pushing' in view of India's impeccable record of meeting debt service commitments. The fact remains that as the average interest rate on commercial loans to India bottomed out at less than 7 per cent, in line with interest rates elsewhere (Figure 1), India's external debt stock ratio jumped from 264 per cent in 1985 to almost 298 per cent in 1986 and the debt service ratio shot up from under 23 per cent to almost 32 per cent in a single year (Tables 1 and 2).

Since 1986 India's debt stock ratio has remained close to 300 per cent (Figure 2) while the concessional debt ratio has gradually declined to around 40 per cent and the debt service ratio has hovered at around 30 per cent (Figure 3). By 1990 these parameters were quite comparable with or even higher than those observed in countries like the Philippines, Brazil and Mexico, though the latter had admittedly gone through various rounds of debt rescheduling, debt reduction or outright debt forgiveness. In other

Figure 1
Average Interest Rates
(Private Creditors)

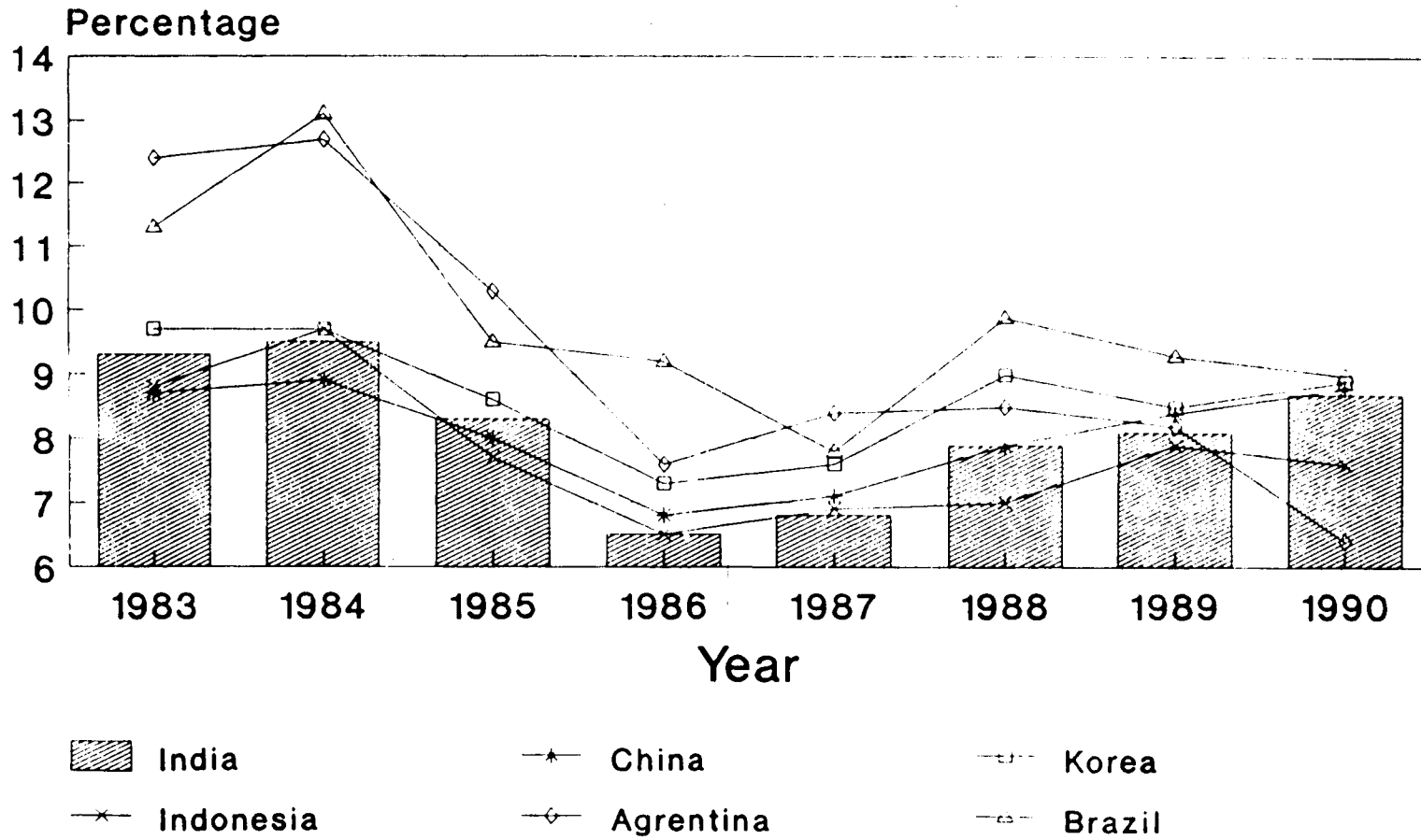
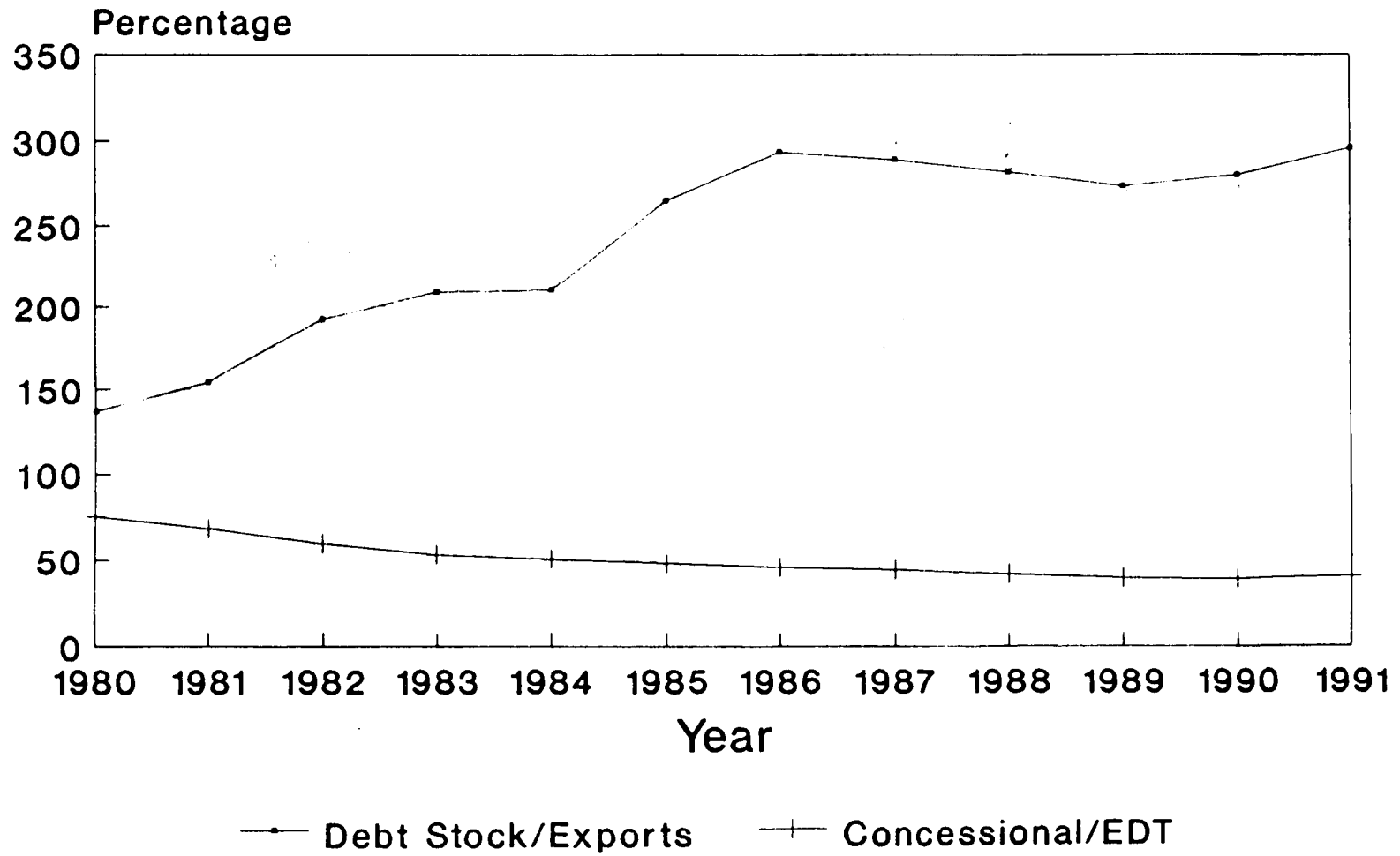
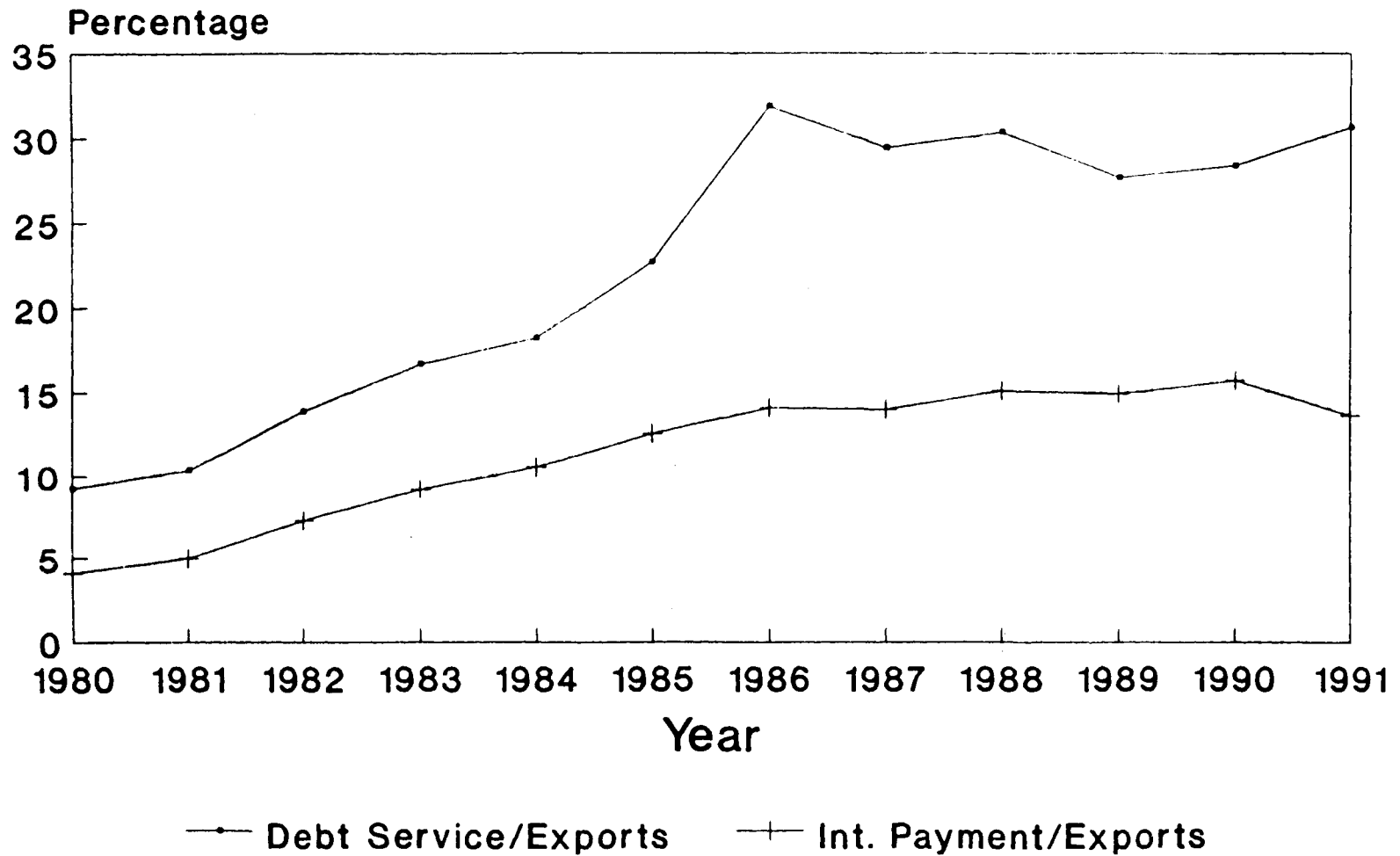


Figure 2
Debt Stock Indicators (India)



EDT = Debt Stock

Figure 3
Debt Service Indicators (India)



words, India's external debt profile had undergone a sea change during the eighties, particularly since 1985. In contrast to the comfortable situation which prevailed during the second oil shock of 1979-80, the country was already in a fragile external debt situation as it faced the third oil shock of 1990-91.

With the outbreak of hostilities in the Middle East and the consequent spiralling of oil prices, the foreign exchange reserves of the country got depleted very rapidly. An estimate prepared by the Ministry of Finance shows that the foreign exchange loss directly attributable to the Gulf war amounted to almost three billion dollars, including about two billion dollars on account of the hike in oil prices alone. Indirect effects in the form of reduced availability of credit or reduced inflow of NRI deposits accounted for another two billion dollars, thus amounting to a total reduction of foreign exchange availability to the tune of almost five billion dollars (Table 3). By November, 1990 foreign exchange reserves were down to less than the monthly average import bill (approximately US \$2 billion). The depletion of reserves, combined with political uncertainties at home, led to a reduction in India's international credit rating and the country had no option but to fly out plane loads of gold as collateral for resources to service the debt, despite a drawal of over a billion dollars from the IMF in January, 1991 under the First Credit Tranche and Compensatory and Contingency Financing Facilities.

It must be noted here that there are other Asian countries which had debt service obligations as large or even larger than that of India in 1990. Yet, none of them faced the kind of 'liquidity' crisis which India experienced in that year. The main disadvantage which India has had to cope with, as compared to these Asian neighbours, is a large, persistent deficit on the trade account (Table 4). China, which used to run a trade deficit, now enjoys a large trade surplus. Indonesia has had a large trade surplus throughout the eighties. Korea had a trade deficit in 1990 but usually enjoys a large surplus. So do a number of other Asian countries not shown in Table 4. In contrast, India ran a large and growing trade deficit throughout the eighties, which could be cut back only through emergency import compression measures in 1991-92.

In other words, instead of financing the whole or a part of the debt service obligations, India's trade balance has remained a net burden which must be financed in addition to the interest charges and amortization on accumulated external debt. This raises two important issues. The first is the urgent need to reverse the export pessimism and anti-export bias of India's trade policy regime, a matter which is not pursued in this paper but one which has been accorded a very high priority in India's on-going adjustment programme. The second issue, which is addressed in this paper, has to do with the international financing options which India has pursued in the past and is likely to pursue in future in order to meet the trade deficit and debt service obligations. These options, namely, the recourse to external assistance, commercial borrowing and direct foreign investment are reviewed in Sections 2 and 3 below.

2. External Borrowing

When a country chronically runs a trade deficit in excess of net invisible earnings, it must find alternative sources of financing this gap in addition to the interest obligations and amortization of accumulated external debt as explained above. In India's case this external financing requirement rose from 6 billion dollars in 1985-86 to over ten billion dollars in 1990-91 before corrective measures were introduced (Table 5). The bulk of this consisted of the trade deficit. The other important components consisted of a little over two billion dollars in interest obligations and amortization of around two and a half billion dollars, along with an offsetting net invisible surplus of around three billion dollars.

In meeting this financing requirement, India relied very heavily on long term borrowings (over 1 year maturity), which have generally accounted for between two-thirds to three quarters of the total financing requirement (Table 6). External assistance by way of concessional loans remain the largest component of long term borrowing; followed by commercial borrowing, which has become quite large in recent years, accounting for between 20 per cent to 30 per cent of the total external financing requirement. Other important components of long term borrowing include receipts from

Non-Resident Indians (NRI) and, in some years, drawals from the IMF. Decumulation of official reserves and other receipts, including short term borrowing and direct foreign investment, have together accounted for about a third of the total financing requirement.³

a. **External Assistance.** It has been mentioned that while India has largely relied on borrowings to finance the external deficit during the past decade, the largest component of these borrowings have consisted of concessional loans. But for this, the country's debt service ratio would have been even higher. About sixty per cent of this concessional lending comes from multilateral sources, primarily the World Bank. World Bank lending to India accounts for almost 90 per cent of multilateral assistance or roughly half of total external assistance.

India, in turn, is an important entity in the World Banks lending portfolio, accounting for between 14 to 16 per cent of the total portfolio. However, during the past decade there has been a gradual hardening in the Banks lending profile vis-a-vis India. The country has meanwhile also started borrowing from the Asian Development Bank (ADB) since 1986. At the time of the 1990 liquidity crisis, ADB's cumulative loan commitment to India was about US \$2.4 billion and this has since gone up further.

External assistance in the form of concessional loans remains the most preferred form of external financing, apart from a modest grant element. However a major problem which has emerged with this form of financing is the large and growing component of loan authorisations which remains unutilized, but on which a commitment fee is nevertheless payable.

The average ratio of loan utilisation to authorisation has been declining at an alarming rate. It fell from almost 70 per cent in the period 1974 to 1979 to 59 per cent in 1980 to 1985 and further to about 43 per cent in 1985 to 1990 (Table 7). However, around this average performance there are large inter-sectoral variations, with utilisations

3. This pattern was of course altered in 1991-92 following the introduction of the adjustment programme. Large inflows of concessional loans, IMF drawals and other receipts were used to build up official reserves even as NRI funds continued to flow out.

improving in some sectors while it has deteriorated in others. Utilisation performance in the transport and communication sectors improved significantly in the late eighties after a sharp deterioration in the early eighties. Power projects have gone the other way, first improving in the early eighties and then declining to a low of just over 34 per cent. Performance in agriculture has been similar, first improving in the early eighties and then deteriorating. The utilisation ratio in industrial projects has fallen from over 70 per cent to in the early eighties to less than 33 per cent. However a category of miscellaneous projects shows sustained improvement throughout the eighties.

A High Level Committee set up to analyse India's external financing problems and evolve a strategy for managing India's balance of payments, usually known as the Rangarajan Committee (Government of India, 1993), identified a number of factors leading to such low utilisation. These include the following:

- i) Long gestating projects taking on an average over five years for completion.
- ii) Delays in project approval and tendering procedures.
- iii) Paucity of domestic (rupee) resources.
- iv) Non-compliance with negotiated financial and other covenants.
- v) In the power sector, below cost tariffs leading to chronic losses of State Electricity Boards and paucity of rupee resources.
- vi) Delays in land acquisition and rehabilitation of displaced persons in the case of greenfield projects.

The low utilisation problem applies not only to multi-laterally aided projects but also bilateral assistance projects. Where such projects are taken on merely to access foreign exchange under tied credit bilateral projects, this leads to imports at unduly high cost.

With a view to improving the utilisation record the Committee made a number of recommendations which are now under implementation. These include:

- i) Identify projects where progress is low and, where necessary, a redefinition of projects or even cancellation in order to eliminate payment of commitment fees on active but unimplemented projects.
- ii) Pass on hundred per cent of external assistance to the States in all sectors, with additional Central government assistance being released on a monthly basis to avoid funds constrained delays in implementation.
- iii) Attach priority to externally aided projects in making Plan allocation of rupee resources while also mobilising adequate resources to allow implementation of unaided projects.
- iv) Streamline and decentralise contracting procedures, rendering government clearance unnecessary, since the market based allocations of foreign exchange makes such control redundant. Monitoring and approval procedures should be similarly streamlined.

b. **Commercial Borrowing.** Recourse to commercial borrowing as a source of external finance is a phenomenon of the eighties which gained momentum particularly since 1986 in India. Rajaraman (1992) estimates that about seventy five per cent of total commercial borrowings during the eighties was contracted in the period 1986-89.⁴ Defined as borrowings on commercial terms with maturity of at least one year, external commercial borrowings have mainly taken the form of supplier/buyer credit, syndicated

4. However, these estimates are not based on official data and seem to have a different coverage.

bank loans and the securitised instrument market. Though services have remained diversified, Japan has emerged as an important supplier both for syndicated bank loans as well as bond issues in the Tokyo capital market.

On the demand side, over eighty per cent of such loans were contracted by public sector financial and non-financial undertakings. Development financial institutions were encouraged to borrow large sums well in advance of their requirements for foreign currency loan disbursements and loans were approved even to finance imports of raw materials and components by public sector undertakings. Thus, in the years leading up to the 1990 liquidity crisis commercial borrowings were being undertaken virtually for balance of payments support (Government of India, 1993).

Indian entities borrowed using the full range of forms available in international capital markets including fixed and floating rate loans, fixed and floating rate bonds as well as Note Issuance Facilities. Aggregating across all forms, the median size of commercial loans in the eighties was US \$35 million while the median maturity was ten years (Rajaraman, 1992). Average interest rates on private loans dropped quite sharply from 9.5 per cent in 1984 to 6.5 per cent in 1986 and then remained at between 8 per cent and 9 per cent (Table 8). While interest rates, maturity and grace period for loans to India were more or less comparable to those offered to other Asian countries, they were softer than the terms offered to some important Latin American countries. Also, they do not appear to have reflected the deterioration in India's country risk parameters such as the debt stock or debt service ratio, current account deficit, etc.

This raises an interesting issue in the context of the 'loan pushing' debate among international finance economists. Some analysts like Eaton and Gersovitz (1981) have argued that lenders have full information on borrowers and factor these into their determination of terms and ceilings for borrowers. However, Darity (1985) argued that for extraneous reasons lenders sometimes drastically soften the terms of loan, out of line with observable risk parameters, in order to push loans to entities in some countries or regions. Sachs (1989) also claims that major U.S. banks have often sought ways of by-passing prudential exposure norms. The experience of commercial lending to India in the late eighties would seem to suggest that there was some loan pushing of this type.

The favourable terms offered to Indian entities also induced excessive recourse to commercial borrowing on the Indian side, even for balance of payments support, with serious adverse consequences as pointed by the Rangarajan Committee (Government of India, 1993).

Following the Gulf War, there was a drastic change in India's commercial borrowing prospects. It was as if the international lending community had suddenly woken up to ground realities. Credit rating agencies reduced the rating for India, taking into account both the external payments situation as well as domestic political uncertainties. The flow of credit from commercial banks and bond markets virtually stopped and the liquidity crisis called for strong crisis management measures. Importers were required to borrow for a minimum period of one year in the case of raw materials and components and two years in the case of capital goods and foreign currency resources parked with the Central bank by the development financial institutions were frozen.

Export credits supported by official export credit agencies emerged as the single major source of external funds. However, even these were reaching exposure limits and the premium for individual borrowers was raised while access was constrained. With the introduction of the economic reform package since July, 1991, the situation has marginally improved. Exposure limits have been eased and the premia have been gradually reduced. However, the access to bank loans and bond markets remains uncertain.

In the light of this sobering experience, the unwarranted enthusiasm about commercial borrowing witnessed in the late eighties has given way to much required prudence. The Rangarajan Committee has in its report made a number of recommendations which are likely to serve as the guiding principles for India's approach to commercial borrowings in the years ahead. These include the following:

- i) **Mere enthusiasm of lenders, excess liquidity in international markets or cash compulsions of borrowing entities should not be the decisive factors determining entry into international bond and loan markets. Instead commercial borrowing should be based on prudent prior assessment and preparation.**
- ii) **Total disbursement of commercial loans should be contained at about US \$2.5 billion per annum over the Eighth Plan period and allocated according to explicit priorities.**
- iii) **Approvals should not be accorded for commercial borrowing with maturities of less than five years.**
- iv) **The options of debt rescheduling or debt swaps should not be entertained since their benefits are not commensurate with the cost of the adverse signals implicit in these options. The options of sovereign borrowing or sovereign guarantee should be kept open but exercised with great caution, especially since the overall policy thrust is to contain the volume of commercial debt. The latter should be confined primarily to public sector entities and World Bank or ADB loans to the private sector in exceptional cases.**
- v) **A gold bond scheme may be introduced on an experimented basis to mobilise foreign currency loans and the experience reviewed after one year. Meanwhile decentralised liquidity management by way of currency swaps by leading and experienced players should be encouraged.**

c. **Non-Resident Indian (NRI) Deposits and Short Term Debt.** During the past decade there was also growing dependence on NRI funds as a source of external financing. However, these flows were attracted by the offer of higher interest rates than those prevailing in international markets, insulation against exchange risk and fiscal

concessions. International banks and other players took advantage of the arbitrage opportunities offered by these schemes. However, funds were quickly pulled out at the first signs of a problem in 1990, further aggravating the crisis. Between April and December, 1991 over US \$1.5 billion were pulled out from various non-resident Indian accounts.

Keeping in view this experience the Rangarajan Committee has now recommended that NRI deposits should have a minimum maturity of one year and that the interest differential should be gradually reduced in order to discourage arbitrage motivated deposits. Instead, a market for medium term NRI Bonds should be developed with facilities for trading in a secondary market.

With regard to Short Term Debt the Rangarajan Committee noted that recourse to such finance contributed to the liquidity crisis of 1990-91 not so much because of its large volume, which was not excessive by international standard, but because such funds meant purely for financing trade were used to maintain reserves. Consequently they had to be repeatedly rolled over since the reserves were not available to discharge the debt. For the future the Committee has recommended that short term loans should be strictly confined to trade related purposes and contracted through normal market channels, i.e., authorised exchange dealers. Roll overs beyond six months should normally be disallowed and the Central bank should set up a system for close monitoring of such debt.

3. Direct Foreign Investment

Direct foreign investments (DFI) constitute the third major source of external financing along with concessional assistance and commercial borrowings. However, this source has remained negligible so far in India compared to most of her Asian neighbours. Annual direct foreign investment in countries like Singapore, China, Malaysia and Thailand run into billions of dollars. This was also true of Hong Kong before uncertainties about its political status slowed down the flow of foreign

investment. It is now also true of countries like Indonesia and Korea where direct foreign investment was moderate earlier (Table 9). In India such capital flows have rarely exceeded 200 million dollars.

DFI has been negligible in the past not because India could not attract foreign capital but because the government actively discouraged it as a matter of policy, the Foreign Exchange Regulation Act (FERA) being the principal legal instrument used for this purpose. There is a misconception that the exclusion of foreign capital was a necessary component of the import substituting industrial and trade policy regime which India pursued in the past. However, several Asian countries such as Malaysia, Thailand, Philippines and Indonesia, which kept their doors open in the capital market while pursuing a policy of import substitution in the product market, were able to attract substantial volumes of direct foreign investment during the sixties, seventies and early eighties (Yue, 1993). In fact, it is arguable that a protected domestic market served as a positive incentive for foreign firms to locate production bases in these countries. However Lucas (1993) has recently argued that inward orientation is not a necessary condition for attracting DFI and that the latter is more elastic with respect to export demand as compared to domestic demand in ASEAN countries.

There is an interesting contrast here between the sector preferences of foreign capital depending on the source. Thus, Japanese foreign investment seems to follow the comparative advantage of host countries and particularly in the late eighties Japanese investment in the Asia-Pacific region has largely gone into export sectors (Chen, 1993). However, U.S. foreign investments tend to go into non-tradeable sectors such as power generation or sectors where there is a substantial domestic market (Kojima, 1991). Clearly there is much room for both types of direct foreign investment in India if indeed the country is interested in attracting such investments. Recent data on nearly US \$1.3 billion worth of approvals for DFI (as distinct from actual investments) for 1992 indicates that there is maximum DFI interest in sectors like electricals (power plants), mechanical engineering and chemicals. The main sources of interest are the U.S.A., Switzerland, Japan and Non-Resident Indians in that order (Table 10).

The six-fold increase in DFI approvals in the space of a single year reflects the sea change in Indian policy perceptions regarding foreign investment. It is now recognised that DFI is preferable to external borrowing for financing the current account deficit; not only because it does not carry a debt service burden but also because it facilitates the transfer of new technology, gives access to multi-national market channels and contributes to skill formation and improvement of management know how. Whether or not this change in approach and the dramatic increase in DFI approvals gets translated into an equally dramatic increase in the actual flow of foreign investment will depend however on external perceptions about political and macro-economic stability as also the attractiveness of incentives and facilities offered to foreign capital in India as compared to those available elsewhere.

The relevant incentive structure has two aspects to it. Regulatory measures designed to extract the maximum benefit per unit of foreign investment for the host country and promotional measures designed to maximise the flow of foreign investment (United Nations, 1992). The policy challenge is to arrive at an optimal mix of the two in a competitive international environment. From this point of view, it is interesting to review some of the major conditions governing direct foreign investment in India and see how they compare with conditions offered by some of her other Asian neighbours.

a. **Equity Participation Regulation.**⁵ Automatic approval is now available in India for foreign equity participation upto 51 per cent of paid up capital in 35 designated high priority industries in sectors like engineering, chemicals, food processing and tourism, provided the foreign equity covers the foreign exchange cost of capital goods imports arising out of the investment. The provision that export earnings should also cover the repatriation of dividends has been withdrawn except for some consumer goods.

5. The discussion in this sub-section and the next four sub-sections is primarily based on Kwon (1989), Tjokronegoro (1992), UNCTAD (1993) and UNIDO (1991).

Automatic approval upto 100 per cent equity participation is also available for NRIs, or overseas corporate bodies (OCB) with predominantly NRI share holding, for the high priority industries as well as export houses, trading houses, star trading houses, hospitals, sick industries, hotels and other tourism related industries and export oriented units. Automatic approval for 100 per cent equity participation is also available to other foreign investors in the power sector, 100 per cent export oriented units and some selected high technology industries. In refineries DFI upto 26 per cent of equity is now automatically allowed. Disinvestment of equity by foreign firms at market rates is now allowed, as also its repatriation after payment of any taxes due. FERA has also been modified such that firms with more than 40 foreign equity are now treated at par with fully Indian owned firms.

There regulation are very much in line with those followed in most Asian countries other than Singapore and Hong Kong. Except in these two countries, there are usually some restrictions on foreign investment. For instance, foreign investment is not allowed in a negative list of industries in the Philippines and Korea while it is restricted in key energy and raw material industries in China. In some countries like Indonesia it is also required that the domestic share of equity should be raised over time to 51 per cent. However, in most countries foreign investment is strongly encouraged in the export sector.

b. **Repatriation Rules.** Repatriation of profits or the proceeds of disinvestment are allowed in India after payment of applicable taxes. However in the case of consumer goods such dividend repatriation must be balanced by export earnings. Similar repatriation rights obtain in most Asian countries and sometimes these are even tax exempt. Thus, in China a tax of 10 per cent applicable on repatriations does not apply to investments in the Special Economic Zones or the Economic Development Zones.

c. **Tax Incentives.** The tax incentives available to domestic firms in India also by and large apply to foreign firms. Most manufacturing enterprises commencing production by fiscal 1994-95 are eligible for a 30 per cent deduction in the computation

of taxable profits for the first ten years of production. Additional incentives are available for activities such as oil exploration while profits from export activities are fully exempt from taxation. On the indirect taxes side, full refund is available for customs duties and domestic duties paid on raw materials, components or capital goods imported for export manufacturing.

In the latest budget further incentives have been introduced by way of a five year tax holiday for new industries located in some backward regions of the country, units set up for generation and distribution of power and units located in Free Trade Zones, Software Technology Parks or Electronic Hardware Technology Parks provided they commence production by fiscal 1997-98. However branches of foreign companies are still taxed at a higher flat rate of 65 per cent on branch income as compared to an effective corporate tax rate of 57.5 per cent for closely held domestic companies and 51.75 per cent for widely held domestic companies. Depreciation is allowed at specified rates for all commercial buildings and equipment based on the written down value method. No withholding tax is applied on branch profits, however the income of foreign firms by way of dividends, interest is taxed at 25 per cent and that from royalty and other technical fees are taxed at 30 per cent. Further, it may be noted that the tax rates applicable to these incomes are still lower for the treaty country firms. Finally, foreign institutional investors are taxed at the concessional rate of only 20 per cent on income, 10 per cent on long term capital gains and 30 per cent on short term capital gains.

Though there are obviously differences in specifics, the basic components of tax incentives in other Asian countries are similar to those available in India, i.e., tax holidays, accelerated depreciation allowance, export incentives, duty exemptions or concessions for exports and so on. However, it would appear that in some cases the tax incentives have been more imaginatively calibrated to induce performance improvements in exports or priority areas and reinvestment in the host country.

In China, for instance, different incentives apply to different categories of foreign capital, namely, fully foreign owned enterprises, cooperative joint ventures and equity joint ventures. Incentives are most generous for the latter. Where such ventures

are scheduled to operate for at least ten years, incomes are fully exempt from taxation for the first two profit making years and eligible for a 50 per cent tax reduction for another three years or indefinitely if 70 per cent of the output is exported. When such ventures engage in 'low profit' activities such as farming, reductions in tax rates ranging from 15 per cent to 30 per cent apply for another ten years after the initial five profit making years. If the profits after tax are reinvested then 40 per cent of the tax paid is refunded.

Some countries also remain quite alert about to the effectiveness of incentives. Indonesia, for instance, removed its tax holiday incentive in 1984 without any visible adverse effect on foreign investment. This seems to be in line with the argument that tax holidays are neither necessary nor sufficient to induce foreign investments and that potential investors are much more concerned about political and macro-economic stability, bureaucratic support, infrastructure facilities, etc. (Yue, 1993).

d. **Export Processing Zones and Special Economic Zones.** An approach which has become quite popular over the past decade for attracting foreign investment is that of insulating such investment from the prevailing disadvantages and problems of investment in a host country. This is done by reserving specified locations for such projects, where special infrastructural and other facilities are provided along with fiscal incentives, flexible regulatory laws, etc. In India six such Export Processing Zones are operating and a seventh is under development at Vishakhapatnam. The products manufactured in such zones include electronics, engineering goods, chemicals and allied products, gems and jewellery, textiles, garments, plastics and rubber products. Units in these zones enjoy all the tax incentives described above as well a liberalised provisions regarding municipal taxes, octroi, sales tax and property tax along with concessional credit available to exporters and efficient infrastructure facilities.

Such facilities have been established in most of the ASEAN countries, Korea, China, etc. However, the approach has been more effective in some countries than others. The success of Special Economic Zones and Economic Development Zones in China is well known. The Export Processing Zones in Malaysia are also reported to be quite successful (Yue, 1993). The experience gathered so far indicates that the success

of these zones depends crucially on the availability of effective and adequate infrastructure, both physical and institutional, which are essential for successful business operations, with or without the various tax incentives.

e. **Other Measures for Encouraging Direct Foreign Investment.** Among other important steps which have been taken recently to facilitate the flow of foreign investment, a Foreign Investment Promotion Board has been established to process foreign investment applications which do not qualify for automatic approval. Foreign companies are now also allowed to use their trademarks for domestic sales and India signed the Multilateral Investment Guarantee Agency Protocol (MIGA) on 13th April, 1992. So far as expatriate employees are concerned, a work permit is not required but a residence permit is required beyond a period of three months and appointment of expatriates in high managerial positions requires government approval. Permission is also required from the Central bank where repatriation of salaries in foreign exchange is envisaged.

These regulatory and promotional measures are again broadly similar to those in other Asian countries. The ASEAN countries have established investment boards to promote, coordinate and monitor foreign direct investment. Laws have also been enacted to protect patent rights and trademarks registered by foreign investors in the ASEAN countries, China and Korea. All these countries are also signatories to the MIGA Protocol. However, some of them are also signatories to other multilateral agreements like the Paris convention, the Madrid Agreement on Trademark Registration and the U.N. Pact on Acceptance and Implementation of Foreign Arbitration which India is yet to sign.

The foregoing discussion suggests that the structure of incentives presently offered by India for foreign investment is broadly similar to those offered by her Asian neighbours, though there are obviously differences in detail which need to be ironed out. What turns out therefore is that if incentives are similar across most Asian countries, then the success or failure of individual countries in attracting DFI will depend

ultimately on political and macro-economic stability, the adequacy and effectiveness of infrastructure and the degree of institutional and bureaucratic support extended to foreign investors.

f. **Foreign Portfolio Investment.** The discussion so far has concentrated on direct foreign investment on projects. However foreign capital can also flow in the form of portfolio investment. While such investment does not carry all the advantages of project investment cited earlier, it still has an advantage over external borrowing in that it does not entail a debt servicing burden in the future. The Indian government has therefore allowed reputed foreign institutional investors (FII) including pension funds, mutual funds, asset management companies, investment trusts, nominee companies and incorporated or institutional portfolio managers to invest in the Indian capital market, provided they register with the Securities and Exchange Board of India (SEBI) and obtain Central bank approval under the Foreign Exchange Regulation Act.

Portfolio Investments by the FII in the primary and secondary markets are subject to an overall ceiling of 24 per cent of the issued share capital in any company and the FIIs are required to allocate their total investment between equities and debentures in the ratio of 70:30. FIIs operating in India enjoy a concessional tax rate of 20 per cent on dividend or interest income and 10 per cent on long term capital gains.

Conclusion

This review of India's international financing experience has underlined the critical importance of the foreign exchange constraint in a chronically trade deficit country like India. It has drawn attention to the unfortunate deterioration in India's external debt profile throughout the eighties, but especially since 1986; the imprudent recourse to commercial borrowings, short term loans and arbitrage driven, expensive but footloose NRI deposits for balance of payment support during this period and the consequent onset of a severe foreign exchange liquidity crisis in the wake of the Gulf War.

The crisis has brought about a sea change in India's policy perceptions. In the area of external finance direct foreign investment, hitherto discouraged, is now seen as the most preferred form of external financial flow. While much has been done to make India as attractive a host country as its other Asian neighbours, the Rangarajan Committee has correctly cautioned that it would be unrealistic to expect large inflows of such investment in the medium term. International experience has shown that even when the political climate and macro-economic conditions are stable, direct foreign investment follows an economic boom, it never leads the boom.

It follows that India will continue to be heavily dependent on external borrowing so long as it has to finance a trade deficit on top of the debt servicing burden which is itself enlarged as a consequence of borrowing. Among alternative borrowing options the Government would naturally prefer maximum recourse to concessional assistance, with improved utilisation. However, the availability of such assistance is now under pressure because of alternative claims and India's poor utilisation record. Other normal borrowing sources such as commercial borrowing, NRI funds or short terms loans are suitable either for investments which can yield an adequate return to service the loan or for purely short run trade purposes. The government now recognises that dependence on such borrowings for balance of payments support is neither desirable nor acceptable.

In other words, on the question of external financing there is no alternative to the achievement of a trade surplus or external equilibrium along with internal equilibrium. In fact this is the basic rationale underlying India's on-going adjustment programme. Much progress was achieved fairly quickly within the first year and a half after the adjustment programme was introduced in July, 1991. The budget deficit was brought down from nearly 9 per cent to 5.6 per cent, personal income tax rates and customs duties were partly moderated; quantitative restrictions on industrial investment and trade were largely eliminated and inflation was brought down to moderate levels (Government of India, 1993a). However on the key question of the trade balance, the outlook remained bleak. Imports increased quite sharply after the

emergency compression measures of 1990-91 were withdrawn while export growth remained stagnant because the trade with Eastern Europe and Russia had virtually collapsed.

Monthly trade data which has now come in upto May, 1993 suggests that this situation may be changing. Exports have been growing at close to 30 per cent compared to the corresponding period a year ago and the trade deficit is down to only US \$6.59 million during April-May 1993, as compared to US \$944.74 million during the same period last year. Thus, in less than two years since the adjustment was initiated in July, 1991, India's trade deficit appears to have bottomed out and the country may well be on the rising segment of the J-curve.

TABLE 1

Debt Service Indicators

(Percentage)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
a. <u>Ratio of Total Debt Service to Exports</u>												
China	4.6	6.9	8.4	10.6	7.9	8.3	9.6	9.5	9.7	11.4	11.6	12.0
India	9.2	10.4	13.9	16.7	18.2	22.7	31.9	29.4	30.3	27.6	28.3	30.6
Indonesia	13.9	14.1	18.2	20.2	21.4	28.8	37.4	37.1	40.4	35.5	31.1	33.0
Korea	19.7	21.7	22.4	21.2	21.3	27.3	26.7	32.3	14.8	11.8	10.7	N.A.
Philippines	26.5	33.4	42.4	36.3	33.3	31.8	33.5	35.6	30.9	25.6	26.8	23.2
Argentina	37.3	45.7	50.0	69.7	52.4	58.9	76.2	74.3	44.2	36.2	39.4	48.1
Brazil	63.1	65.9	81.3	53.8	44.9	38.6	47.0	41.9	48.2	34.6	22.6	30.8
Mexico	49.5	51.6	56.8	51.7	52.1	51.5	54.2	40.1	48.0	37.9	27.8	30.9
b. <u>Ratio of Total Interest Payment to Exports</u>												
China	1.6	2.1	3.2	3.2	3.4	4.0	3.4	4.5	4.6	6.4	5.2	5.2
India	4.1	5.0	7.3	9.2	10.6	12.6	14.1	14.0	15.1	14.9	15.7	13.6
Indonesia	6.5	6.9	9.1	10.1	11.0	11.9	16.8	15.6	15.6	13.9	12.5	13.3
Korea	12.7	14.1	14.7	12.2	12.0	12.8	9.2	5.7	4.2	3.8	3.4	N.A.
Philippines	18.2	24.7	29.8	24.5	23.9	21.9	18.5	19.0	18.1	16.9	13.1	11.0
Argentina	20.8	29.1	36.7	55.7	44.1	49.1	48.7	48.3	27.3	17.7	16.6	25.0
Brazil	33.7	38.4	49.2	38.6	30.0	31.5	31.4	26.4	36.1	14.7	6.7	15.8
Mexico	27.4	35.2	40.4	34.8	34.7	34.4	35.1	27.7	27.0	24.6	16.7	17.3

Source: World Debt Tables, Vol. 11, 1989-90 and 1992-93, World Bank, Washington.

Notes: 1. US \$33 millions debt forgiven in Korea in 1985.

2. Measured in millions of US dollars, the total amount of debt rescheduled in Philippines during 1985, 1986, 1987, 1988, 1989, 1990 and 1991 were 785, 5178, 5814, 1962, 1705, 990 and 1035 respectively. Furthermore, reductions in debt stock during 1986, 1987, 1988, 1989, 1990 and 1991 (in millions of US \$) were 11, 335, 808, 494, 1793 and 168 respectively. There was also US \$35 millions of debt forgiven in 1987.

3. Total amount of debt rescheduled in Argentina during 1985, 1987, 1989, 1990 and 1991 (in millions of US \$) were 11,575, 32,134, 553, 953 and 662 respectively. Reductions in debt stock during 1985, 1988, 1989, 1990 and 1991 (in millions of US \$) were 467, 1354, 1508, 12,998 and 698 respectively.

4. Total amount of debt rescheduled in Brazil during 1985, 1986, 1987, 1988, 1989, 1990 and 1991 (in millions of US \$) were 6,552, 6858, 11,703, 53,907, 2,496, 685 and 6,000 respectively. Reductions in debt stock during the same period (in millions of US \$) were 530, 206, 300, 5,115, 6,800, 1,259 and 690 respectively.

5. Total amount of debt rescheduled in Mexico during 1985, 1986, 1987, 1988, 1989, 1990 and 1991 (in millions of US \$) were 48,256, 606, 45,493, 2,926, 516, 36,973, 1,347 millions respectively. Reductions in debt stock during 1986 to 1991 (in millions of US \$) were 363, 1,786, 4,036, 2,546, 7,921 and 527 respectively.

TABLE 2

Debt Stock Indicators

(Percentage)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
a. Ratio of Total External Debt to Exports of Goods and Services												
China	22.2	23.0	32.9	37.8	41.6	56.1	76.9	87.6	89.2	90.0	86.8	86.5
India	136.9	154.2	192.0	208.4	209.5	264.0	292.8	288.0	280.6	272.1	278.4	294.2
Indonesia	94.3	91.5	124.6	151.4	143.6	169.9	250.0	263.5	240.1	209.8	225.1	225.6
Korea	130.6	121.0	131.6	133.0	125.1	142.4	111.3	70.8	50.4	44.3	45.2	N.A.
Philippines	212.4	236.3	296.8	292.3	300.2	331.6	320.7	317.1	262.0	222.3	227.5	215.6
Argentina	242.4	302.0	447.3	470.3	493.1	493.2	593.3	695.5	517.1	540.0	410.2	430.0
Brazil	304.3	299.2	392.8	400.5	354.3	362.1	452.6	431.1	314.3	286.9	327.5	333.7
Mexico	259.2	281.7	311.5	324.0	291.3	326.0	422.7	363.6	312.8	253.1	223.5	224.1
b. Ratio of Concessional Debt to Total Debt Stock												
China	0.5	0.9	5.0	8.3	10.5	14.7	15.5	15.0	14.9	17.5	18.4	17.6
India	75.3	68.5	59.9	53.5	51.0	48.7	46.3	44.8	42.4	40.3	39.8	41.6
Indonesia	36.4	34.2	30.0	26.7	24.6	27.1	27.3	29.0	29.2	29.6	27.7	28.3
Korea	9.7	9.4	8.0	7.5	6.7	6.5	7.2	9.5	10.4	10.5	12.8	11.6
Philippines	5.8	5.8	5.3	6.0	6.4	9.5	11.4	15.3	18.5	19.4	22.8	25.9
East Asia and Pacific	15.3	N.A.	12.1	11.6	11.4	13.0	14.5	17.3	18.4	19.4	20.4	20.1
Argentina	1.8	1.2	0.9	0.4	0.4	0.4	0.5	0.4	0.4	0.9	0.9	0.9
Brazil	2.5	2.1	1.9	1.5	1.5	2.7	4.3	3.5	3.0	2.7	2.6	2.5
Mexico	1.0	0.8	0.6	0.6	0.5	0.4	0.4	0.4	0.4	0.4	1.0	1.0
Latin America	4.4	N.A.	3.7	3.6	3.6	4.2	4.8	4.7	4.8	5.1	5.5	5.4

Source: World Debt Tables, Vol. II, 1989-90 and 1992-93, World Bank, Washington.

Notes: 1. US \$33 millions debt forgiven in Korea in 1985.

2. Measured in millions of US dollars, the total amount of debt rescheduled in Philippines during 1985, 1986, 1987, 1988, 1989, 1990 and 1991 were 785, 5178, 5814, 1962, 1705, 990 and 1035 respectively. Furthermore, reductions in debt stock during 1986, 1987, 1988, 1989, 1990 and 1991 (in millions of US \$) were 11, 335, 808, 494, 1793 and 168 respectively. There was also US \$35 millions of debt forgiven in 1987.

3. Total amount of debt rescheduled in Argentina during 1985, 1987, 1989, 1990 and 1991 (in millions of US \$) were 11,575, 32,134, 553, 953 and 662 respectively. Reductions in debt stock during 1985, 1988, 1989, 1990 and 1991 (in millions of US \$) were 467, 1354, 1508, 12,998 and 698 respectively.

4. Total amount of debt rescheduled in Brazil during 1985, 1986, 1987, 1988, 1989, 1990 and 1991 (in millions of US \$) were 6,552, 6858, 11,703, 53,907, 2,496, 685 and 6,000 respectively. Reductions in debt stock during the same period (in millions of US \$) were 530, 206, 300, 5,115, 6,800, 1,259 and 690 respectively.

5. Total amount of debt rescheduled in Mexico during 1985, 1986, 1987, 1988, 1989, 1990 and 1991 (in millions of US \$) were 48,256, 606, 45,493, 2,926, 516, 36,973, 1,347 millions respectively. Reductions in debt stock during 1986 to 1991 (in millions of US \$) were 363, 1,786, 4,036, 2,546, 7,921 and 527 respectively.

TABLE 3

**Direct and Indirect Impact of Gulf War on India's Balance
of Payments and Foreign Exchange Reserve: 1990-91**

(US \$ billion)

Director Impact

1. Net import burden (petroleum and lubricants)	2.00
2. Loss in remittances	0.27
3. Evacuation cost	0.20
4. Loss in exports	0.39

Indirect Impact

5. Drop in commercial borrowings ¹	0.97
6. Drop in NRI deposit inflows ¹	1.00
Total	4.83

Foreign Exchange Reserve²

September	2.51
October	2.13
November	1.75
December	1.19
January ³	2.63

Source: Economic Survey, 1990-91, Government of India, 1991, Ministry of Finance.

Notes: 1. Items (5) and (6) have been estimated as the difference between average borrowing (or NRI deposit inflow) during 1987-88 and 1988-89 and actuals in 1990-91.

2. Approximately US \$2.00 billion was required for one month's import in 1990-91.

3. US \$0.789 and 1.03 billions drawals were made from the IMF on 23.01.1991.

TABLE 4

Debt Service Payments and Trade Balance

(US \$ million)

	1985	1986	1987	1988	1989	1990	1991
China	2478 -(13123)	2973 -(9140)	3812 -(1661)	4626 -(5315)	5676 -(5620)	6998 (9165)	8451 (8743)
India	3534 -(5616)	5274 -(5438)	5693 -(5777)	6310 -(6581)	6482 -(6110)	7027 -(7750) ¹	7445 -(3078) ²
Indonesia	5816 (5822)	5994 (2458)	7011 (4674)	8668 (5678)	9071 (6664)	9288 (5352)	10784 (4667)
Korea	9048 -(19)	11222 (4206)	18196 (7659)	10459 (11445)	8764 (4597)	8279 -(2004)	6042 NA

Sources: 1. World Debt Tables, Vol. II, 1992-93, World Bank, Washington.

2. International Financial Statistics, 1992, International Monetary Fund, Washington.

3. Economic Survey, 1992-93, Government of India, Ministry of Finance, New Delhi.

Notes: Trade balances are shown in parentheses.

1. Provisional estimate for 1990-91.

2. Quick estimate for 1991-92, reflects forced import compression measures.

TABLE 5

Current Account Deficit, Amortization and Its Financing

(US \$ billion)

	Components of Deficit							Financing of Deficit						
	Trade deficit	Net non-interest invisible outflow	Net interest payment	Current account deficit	Amortization			Total (4+5)	Gross external assistance (Loan)	Gross commercial borrowing	Net NRI inflow ⁵	Net draws from IMF	Official reserve decumulation ⁶	Others receipts
					Total	Of which								
						External assistance	Commercial borrowings							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	
1985-86	7.84	-4.08 ¹	1.12	4.84	1.20	0.63	0.46	6.04	2.04	1.47	1.44	-0.21	0.57	0.73
1986-87	7.32	-3.96	1.20	4.56	2.38	0.92	0.62	6.94	2.49	1.94	1.29	-0.52	0.57	1.17
1987-88	7.17	-3.82	1.50	4.85	2.79	1.22	0.67	7.64	3.53	1.74	1.42	-0.93	0.74	1.14
1988-89	9.36	-3.13	1.77	8.00	2.71	1.14	0.76	10.71	3.27	2.81	1.70	-1.06	1.00	2.99
1989-90	7.46	-2.74 ¹	2.12	6.83	2.27	1.19	0.87	9.10	3.09	2.52	1.31	-0.87	0.74	2.31
1990-91	7.75	N.A.	N.A.	7.73 ²	2.49 ⁴	1.30	1.19	10.22 ⁴	3.44	1.70	0.51	1.21	1.28	2.08
1991-92	3.08	N.A.	N.A.	2.84 ³	2.64 ⁴	1.47	1.17	5.48 ⁴	4.32	1.10	-1.36	0.78	-3.57	4.21 ⁷

Source: Economic Survey, 1992-93, Government of India, 1993, Ministry of Finance.

- Notes: 1. Non-monetary gold movements (net) during 1985-86 and 1989-90 amounted to dollars 20 million and 3 million respectively.
2. Provisional estimate
3. Quick estimate
4. Only includes amortization payments on external assistance and commercial borrowings.
5. Includes foreign currency deposits by banks and others (FCBOD) of US \$262 million in 1990-91 and US \$304 million in 1991-92.
6. Decline (+), increase (-)
7. US \$1.63 billion was raised through India Development Bond in 1991-92.
Official grant components of external assistance are taken as current account receipts on invisible account.

TABLE 6

Financing of Current Account Deficit and Amortization

(Percentage)

	Gross external assistance (Loan)	Gross commercial borrowings	Net NRI inflow	Net draws from IMF	Long-term borrowings (1+2+3+4)	Official reserve decumu- lation ¹	Others	Total (5+6+7)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1985-86	33.8	24.3	23.8	-3.5	78.5	9.4	12.1	100.00
1986-87	35.9	27.9	18.6	-7.5	74.9	8.2	16.9	100.00
1987-88	46.2	22.8	18.6	-12.2	75.4	9.7	14.9	100.00
1988-89	30.5	26.2	15.9	-9.9	62.8	9.3	27.9	100.00
1989-90	34.0	27.7	14.4	-9.6	66.5	8.1	25.4	100.00
1990-91	33.7	16.6	5.0	11.8	67.1	12.5	20.4	100.00
1991-92	78.8	20.1	-24.8	14.2	88.3	-65.1	- 76.8	100.00

Note: 1. Decline (+), increase (-)

TABLE 7

Ratio of Utilisation of External Assistance (Loan) to Authorization

(Per cent)

	1974 to 1979	1980 to 1985	1985 to 1990
Transport and communication	78.8	39.7	56.6
Power projects	30.3	43.8	34.4 ¹
Steel projects including iron ore	58.7	1.6	32.8 ²
Industrial development	1.0	70.7	
Agricultural development	46.0	79.7	69.7
Miscellaneous	30.5	38.6	73.1
Total	69.9	59.0	42.6

Source: Report on Currency and Finance, Reserve Bank of India, various issues.

Notes: 1. Includes coal

2. Does not include fertilizer sector but includes steel projects.

TABLE 8

Average Terms of New Commitments : Private Creditors

	Interest (Percentage)							
	1983	1984	1985	1986	1987	1988	1989	1990
China	8.7	8.9	8.0	6.8	7.1	7.9	8.4	8.8
India	9.3	9.5	8.3	6.5	6.8	7.9	8.1	8.7
Indonesia	8.8	9.7	7.7	6.5	6.9	7.0	7.9	7.6
Korea	9.7	9.7	8.6	7.3	7.6	9.0	8.5	8.9
Philippines	9.9	9.3	9.0	7.4	8.4	8.0	5.7	9.1
Argentina	12.4	12.7	10.3	7.6	8.4	8.5	8.2	6.4
Brazil	11.3	13.1	9.5	9.2	7.8	9.9	9.3	9.0
Mexico	11.9	11.9	10.3	9.2	7.8	9.2	9.8	9.3
	Maturity (Years)							
China	7.8	9.1	6.6	11.0	12.2	11.3	13.1	13.5
India	9.5	11.4	9.8	10.2	11.1	10.6	10.2	11.0
Indonesia	10.4	9.2	10.6	11.0	10.1	11.5	12.8	14.6
Korea	10.8	11.3	10.8	12.3	11.0	17.4	20.7	14.5
Philippines	8.5	7.7	8.9	9.8	11.8	10.5	12.7	15.0
Argentina	5.7	1.9	9.0	6.0	9.8	7.7	6.9	8.0
Brazil	8.9	9.4	9.2	9.0	9.1	10.5	9.8	7.2
Mexico	6.1	9.7	8.5	6.9	11.8	7.3	6.5	10.1
	Grace Period (Years)							
China	1.6	2.6	3.0	4.5	3.4	2.8	3.0	2.7
India	3.5	4.7	4.4	5.4	7.2	6.0	5.5	6.2
Indonesia	4.7	4.1	5.0	6.5	5.1	4.1	5.3	5.2
Korea	3.6	4.5	5.4	4.4	4.5	2.1	1.8	4.3
Philippines	3.9	2.1	2.2	3.9	3.0	5.3	5.9	7.5
Argentina	3.0	1.5	2.8	1.7	3.7	2.3	0.9	0.6
Brazil	2.4	4.8	3.4	2.0	1.9	3.8	3.3	3.2
Mexico	2.7	4.8	2.2	1.0	5.1	1.1	0.7	6.5

Source: World Debt Tables, Vol. II, 1989-90, 1992-93, World Bank, Washington.

TABLE 9

Foreign Direct Investment Inward Flows

(US \$ million)

	1980-85 Annual average	1986	1987	1988	1989	1990	1991
Singapore	1330	1710	2836	3647	4212	4808	NA
China	718	1875	2314	3194	3393	3489	4366
Malaysia	1058	489	423	719	1668	2902	3455
Thailand	264	263	352	1105	1777	2376	2014
Indonesia	227	258	385	576	682	964	1482
Korea	98	435	601	871	758	715	1116
Hong Kong	542	996	3298	2675	1076	783	NA
India	62	118	212	91	252	129	NA

Source: World Investment Report: Transnational Corporation as Engine of Growth, Transnational Corporations and Management Division, United Nations, 1992, New York.

TABLE 10

Distribution of Foreign Direct Investment (Approvals) by Sectors and Countries

(US \$ million)

	1985	1986	1987	1988	1989	1990	1991	1992
<u>Panel A: By Sector</u>								
Chemicals	7.21	23.46	34.70	46.90	42.93	19.51	59.76	145.28
Electricals	24.60	23.55	22.36	25.73	23.41	17.84	41.43	647.14
Industrial Machinery	2.73	0.82	3.00	3.43	3.30	3.62	22.60	24.39
Mechanical Engineering	6.84	6.26	9.25	9.77	9.00	6.69	14.84	108.46
Metallurgy	12.08	10.77	10.02	10.19	9.30	6.13	0.90	20.31
Miscellaneous	49.55	18.76	3.72	69.56	102.14	17.74	77.15	395.41
Total	103.00	83.62	83.05	165.58	190.08	71.53	216.68	1340.90
<u>Panel B: By Country of Origin</u>								
USA	27.72	22.96	22.76	67.09	37.31	19.22	75.40	424.80
Germany	9.65	15.76	7.36	21.41	72.23	10.88	16.96	29.76
U.K.	3.03	6.04	6.52	9.61	20.08	5.06	13.02	40.59
Japan	12.81	4.39	5.33	12.04	5.27	2.79	21.38	210.50
Italy	5.68	1.81	2.29	19.25	4.14	3.81	7.23	30.83
France	1.93	1.60	4.12	8.14	5.08	4.95	7.84	10.22
Switzerland	0.69	2.54	6.82	1.89	4.65	7.53	14.40	237.93
Sweden	0.66	3.71	0.84	0.58	2.50	0.19	2.83	16.70
Netherland	0.33	5.68	0.78	0.73	1.39	2.10	22.69	33.39
South Korea	0.00	0.05	0.11	0.31	0.20	3.94	2.49	13.59
Non-Resident Indians	15.56	6.18	16.01	11.60	12.71	2.92	7.99	151.48
Others	24.95	12.89	10.10	12.95	24.51	8.15	24.45	141.20
Total	103.00	83.62	83.05	165.58	190.08	71.53	216.68	1340.99

Source: Country Report for India, UNCTAD Ad-hoc Working Group on Investment and Financial Flows: Non-Debt Creating Finance for Development and New Mechanism for Increasing Investment and Financial Flows, Geneva, 28 June, 1993.

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