## Equity

37. The up-trend in foreign investment into India continued, with an increase from US $4.9 billion in 1995-96 to US $6.0 billion in 1996-97. During 1997-98, the inflows amounted to US $4.8 billion. Foreign investment continues to remain buoyant supported by sustained increase in both direct and portfolio investment (Table 6.6), though there has been a decline in portfolio flows in recent period.

38. The growth trend has been particularly marked in the case of Foreign Direct Investment (FDI), which has shown sustained growth during the nineties. Foreign direct investment increased from US $2.1 billion in 1995-96 to US $2.7 billion in 1996-97, a growth of 26.4 per cent. During 1997-98, FDI increased by about 19 per cent to US $3.2 billion. The investment was substantial in engineering, chemical and food & dairy products.

39. The list of industries and items eligible for automatic approval by the RBI have also been expanded (details in Chapter 7). Indian companies that have foreign investment approval from SIA/FIPB, will no longer require any further approval from RBI for receiving the inward remittance or issuing shares to foreign investors. Guidelines for foreign investment in Non-Banking Finance Companies (NBFCs) providing 15 categories of financial services were announced. These include: merchant banking, underwriting, asset management, venture capital, stock brokerage, and housing finance. FDI in these financial services is subject to clearance by FIPB, which checks to ensure fulfilment of certain norms.

40. Mauritius is the dominant source of inflows, followed by USA, Germany, and Netherlands. One possible explanation for the dominance of Mauritius is the double taxation treaty between the two countries, which favours the routing of investment through this country. Although inflows from different source countries fluctuate from time to time, it is seen that inflows from Mauritius, Germany, Netherlands, Singapore, and Korea are steadily increasing over the last three years.

41. The rate at which FDI approvals are being translated into actual inflows have improved (Table 6.7). The actual inflow of FDI in proportion to approval has gone up from about 19 per cent in 1995 to about 21 per cent each in 1996 and 1997 (upto November 1997). This suggests that the bottlenecks on the path of implementation of the approved schemes are being removed. Maintenance of good macro-economic policies coupled with sustained and steady improvement in the policy environment is improving India's attractiveness as an investment destination.

42. The surge in FDI inflows into the developing countries continued in 1996. FDI into developing countries increased from US $96 billion in 1995 to an estimated US $119 billion in 1996. India's share within this flow has increased over the last few years. It is estimated to have gone up from 0.6 per cent in 1992 to 2.2 per cent in 1996 (Table 6.8).

**TABLE 6.6**

**Foreign Investment Flows by Different Categories**

**(US$ million)**

| | 1991-92 | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 | 1997-98* |
|---|---|---|---|---|---|---|---|
| **A. Direct investment** | **129** | **315** | **586** | **1314** | **2133** | **2696** | **3197** |
| a. RBI automatic route | — | 42 | 89 | 171 | 169 | 135 | 202 |
| b. SIA/FIPB route | 66 | 222 | 280 | 701 | 1249 | 1922 | 2754 |
| c. NRIs (40% & 100%) | 63 | 51 | 217 | 442 | 715 | 639 | 241 |
| **B. Portfolio investment** | **4** | **244** | **3567** | **3824** | **2748** | **3312** | **1601** |
| a. FIIs# | — | 1 | 1665 | 1503 | 2009 | 1926 | 752 |
| b. Euro equities@ | — | 240 | 1520 | 2082 | 683 | 1366 | 645 |
| c. Offshore funds & others | 4 | 3 | 382 | 239 | 56 | 20 | 204 |
| **Total (A+B)** | **133** | **559** | **4153** | **5138** | **4881** | **6008** | **4798** |

*** Provisional.**
**# Figures represents fresh inflows of funds by FIIs.**
**@ Figures represents GDR amounts raised abroad by Indian Corporates.**

**TABLE 6.7**
**Foreign Direct Investment : Actual vs. Approvals**

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997* | Total (1991 to 1997*) |
|---|---|---|---|---|---|---|---|---|
| **Approvals** | | | | | | | | |
| Rs crore | 739 | 5256 | 11189 | 13590 | 37489 | 39453 | 53643 | 161359 |
| US$ million | 325 | 1781 | 3559 | 4332 | 11245 | 11142 | 14858 | 47242 |
| **Actual Inflows** | | | | | | | | |
| Rs crore | 351 | 675 | 1786 | 3009 | 6720 | 8431 | 11155 | 32127 |
| US$ million | 155 | 233 | 574 | 958 | 2100 | 2383 | 3105 | 9508 |
| Actual Inflows as % of Approvals (In US $ terms) | 47.7 | 13.1 | 16.1 | 22.1 | 18.7 | 21.4 | 20.9 | 20.1 |

*** Upto November, 1997.**
**Note : The approval and actual inflows figures include NRI direct investments approved by RBI.**

**TABLE 6.8**
**FDI by Host Region**

**(US $ Million)**

| COUNTRY | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| China | 11,156 | 27,515 | 33,787 | 35,849 | 40,180 |
| India | 277 | 550 | 973 | 2,144 | 2,587 |
| Indonesia | 1,777 | 2,004 | 2,109 | 4,348 | 7,960 |
| Malaysia | 5,183 | 5,006 | 4,342 | 4,132 | 4,500 |
| Philippines | 228 | 1,238 | 1,591 | 1,478 | 1,408 |
| Thailand | 2,113 | 1,804 | 1,366 | 2,068 | 2,336 |
| All developing countries [LDCs] | 47,000 | 68,000 | 80,000 | 96,000 | 119,000 |
| Share of India in LDCs (%) | 0.58 | 0.81 | 1.22 | 2.23 | 2.17 |

**Figures for India in this table may not be comparable with those in other tables because of differences in coverage and source of information.**

**Source: Global Development Finance, (Vol. I & II); The World Bank.**

43. Portfolio flows [FIIs, GDRs, Offshore funds] increased to US $3.3 billion in 1996-97 from US $2.7 billion in 1995-96 (Table 6.6). They have, however, been lower at US $1.6 billion in 1997-98. Table 6.9 gives a comparative picture of portfolio flows into emerging markets.

44. Portfolio investment by Foreign Institutional Investors (FIIs) at US $1.9 billion in 1996-97 was only marginally lower than the US $2.0 billion in 1995-96. It is however significantly lower in 1997-98, having fallen to US $752 million. This may partly reflect transitory contagion effect of the currency turmoil in some of the countries of Southeast Asia. The net investment by the 100 per cent Debt Funds of FIIs in debt securities has been US $155.7 million till the end of March 1998 (as per SEBI data).

45. Portfolio investment by FIIs has been progressively liberalised. As a follow up of the announcement made in the Union Budget 1997-98, aggregate investment ceilings for FIIs and Non-resident Indians (including OCBs) have been increased up to 30 per cent subject to approval by the company's shareholders. Guidelines for foreign investment in preference shares issued by the Indian companies were also issued. These provide greater flexibility to Indian corporations in using preference shares as a form of financing (see also Chapter 4). FIIs will also be permitted

**TABLE 6.9**
**Portfolio Equity Flows**

**(US $ Million)**

| COUNTRY | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Brazil | 1,734 | 5,500 | 5,082 | 4,411 | 3,981 |
| China | 1,194 | 3,818 | 3,915 | 2,807 | 3,466 |
| India | 241 | 1,840 | 4,729 | 1,517 | 4,398 |
| Indonesia | 119 | 2,452 | 3,672 | 4,873 | 3,099 |
| Malaysia | 385 | 3,700 | 1,320 | 2,299 | 4,353 |
| Thailand | 4 | 3,117 | -538 | 2,154 | 1,551 |
| Philippines | 333 | 1,445 | 1,407 | 1,961 | 1,333 |
| All developing countries [LDCs] | 11,000 | 45,000 | 33,000 | 32,000 | 46,000 |
| India's Share in LDCs (%) | 2.19 | 4.09 | 14.33 | 4.74 | 9.56 |

**Source: Global Development Finance, (Vol. I & II); The World Bank.**

to purchase / sell Treasury Bills within the overall approved debt ceilings.

46. Euro equities [GDR] raised by Indian corporations in 1997-98 are also lower at US $645 million as compared to US $1366 million in 1996-97. The first offering of GDR from India in 1997 was a VSNL issue for US $448 million (priced on March 24, 1997). This was also the first dis-investment by the Government of India through the GDR route.