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Patriotism alone cannot lure NRIs

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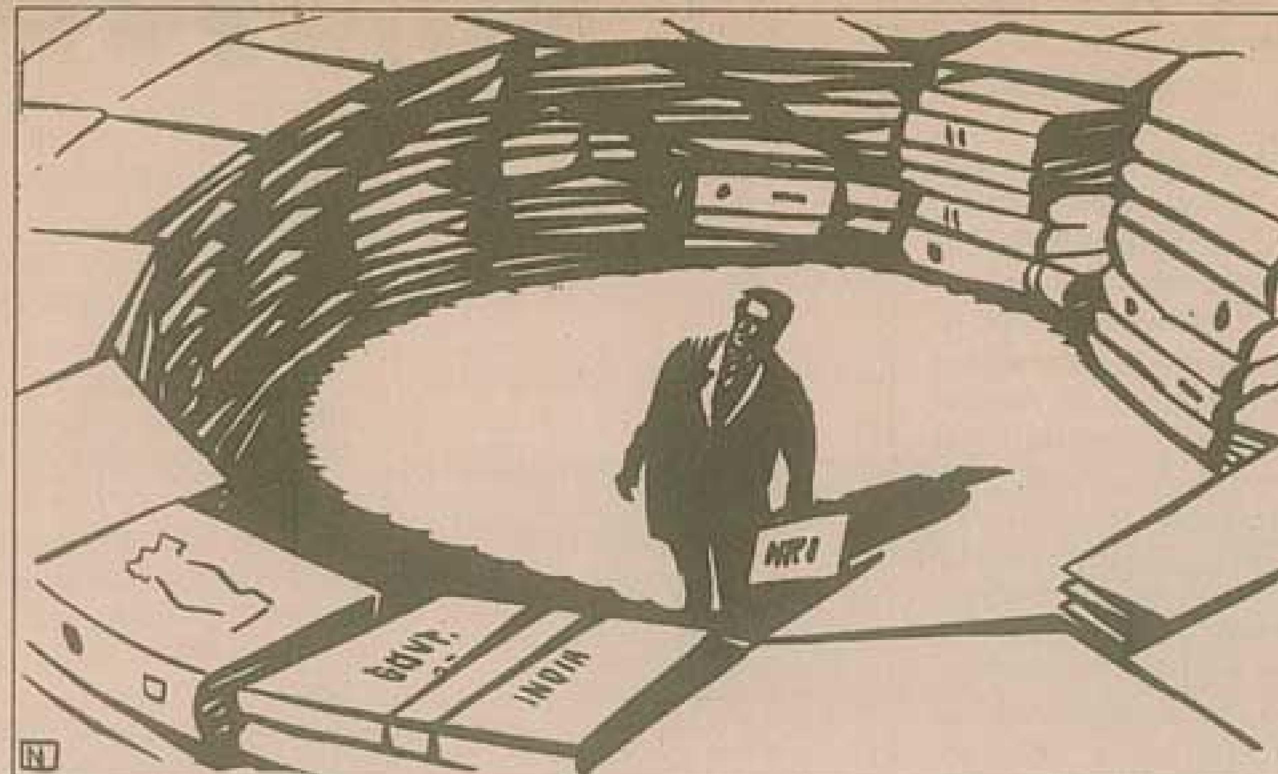
RECENTLY, while inaugurating the FICCI annual meeting, the Prime Minister had a dig at the Non-Resident Indians for not showing what he described as a sense of patriotism. Rattling out statistics from China that of the total foreign investment flows into that country during the last two years, 80 per cent was contributed by the overseas Chinese, Gowda lamented the poor record of NRIs.

The implied linkage between investment and patriotism is fallacious. The former is fundamentally a business decision governed mainly by perception of foreign investors, including NRIs in regard to opportunities for making a good return while ensuring safety of capital. The latter may give an additional push; however, by itself, this does not provide an adequate basis for attracting investment.

Because of the growing demand, India offers the potential to reap good returns in a wide range of business activities. Due to high interest rates, even a simple deposit in an Indian bank would yield more (after adjusting for rupee depreciation) than similar investment in many other countries. In view of this, India should have been the natural attraction of foreign investors. And yet, we are not able to tap even the NRIs who are likely to have an inherent inclination to invest in India and whose investible surpluses alone can fully meet the shortfall in our investment needs. This is primarily due to lack of a conducive business environment.



Until the end of '80s, we had a closed mind-set. We did not like foreign capital except by way of aid. In the '90s, delicensing and dismantling of controls gave an indication of the Government's intention to change. This led to spontaneous response from overseas investors by way of numerous proposals for FDI in a wide range of industries including infrastructure. Investment in the stock of Indian companies also got a boost. But, interest fizzled out because the going was found extremely tough in dealing with our policy makers and administrators.

There exists an automatic route for FDI in respect of 35 industries for equity investment up to 51 per cent. The process is not all that automatic as is often made out, even as the applications have to be approved by the RBI. And, the RBI bureaucracy is daunting. Of the actual FDI inflows since 1991, investment through this route has been only about 9.5 per cent.

Frequent changes in the fiscal policies have severely affected sentiment in the capital market. Introduction of MAT and non-voting shares in the Budget for 1996-97 is a case in point. Although, belatedly, the non-voting share proposal has been dropped, uncertainty continues over MAT.

By stating that the FIPB approved FDI worth $ 7 billion in the last six months, Gowda gave an indication that the present Government is more business-like. But approvals alone are not a good indicator. What matters is the investment that actually materialises.

Against the cumulative approvals of about $ 22 billion since 1991, the actual FDI has been only $ 4.5 billion. This is due to the typical syndrome whereby the foreign investors are given a rosy picture at first sight, but, en route find the going extremely tough in the maze of uncertain policies and Indian bureaucracy.

The very few which see the light of the day are the ones where interface with the bureaucracy is less, investment required is small and expected profit margins are substantial. That indeed would explain increasing presence of the MNCs in the consumer goods sector and negligible investment in infrastructure.

Despite persistent adversities, the NRIs have contributed about 30 per cent of the actual investment inflow since 1991. They will bring much more if only the Central and State Governments endeavour to evolve consistent policies and reduce the discretionary powers of the bureaucracy. Evoking nationalist sentiments alone won't work.

The writer is chief economist of the Fertiliser Association of India