<u>FII and FDI-S L Rao in "Business Economcs"</u>

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__India today has a higher current account deficit in the Balance of Payments than it did even in the crisis years of 1990 and 1991 which was the excuse for the Narasimha Rao government to liberalize and open up the Indian economy. We have depended heavily in foreign institutional investment and in foreign direct investment mainly into equity. Much less has come into building new factories in India. More has gone into buying existing ones, not adding to our industrial base.

India needs massive foreign investment especially in infrastructure. This has been limited-into roads, power, ports, railways, airports, etc. The reason has been the complex procedures, the time consuming delays in acquiring land and getting the innumerable clearances for land acquisition, environment and forest clearance, rehabilitation of people, etc. Thus, there has been little interest of the oil majors to invest in exploration and production of oil and gas in Indian territory. There has been practically no large investment in power except for the unlamented Enron over 15 years ago. They have not come into roads, airports or any other part of infrastructure.

In the last two years the UPA government has tried to get FDI into insurance, pension funds, retail, tc. The regulatory framework is complicated and uncertain. An investor is not sure as to what are the rules. The tax issues and the difficult transfer pricing issues have made many investors wary of investing. Foreign investment in India is opposed by

ideologically minded politicians brought up on decades of hostility to private investment and wespecially foreign investment. Profits by private investors is till looked down upon by many. Even the new AAm AAdmi Party of Kejriwal has this attitude. And yet these people talk of development. That is not possible unless we can augment the invetible resources in India.

FII has been encourages by politicians and bureaucrats as well as businessmen because it helped black money from India to go out by hawala and come back to be laundered in Indian stock markets, free of capital gains. Investments in Mauritius, and a few other countries are free of capital gains tax since the tax agreements puts the tax liability as that in the sending country. So funds from Mauritius invested in Indian stock markets, are free of capital gains when the shares are sold and money repatriated out of India. This enables Indians with illegal funds (black money), to send them out by hawala, bring them back for equity investment, legally send it out, and black has become white money. A great part of FII investments is believed to be of this kind.

Another clever means of sending money out has been ‘participatory notes’, funds sent anonymously by banks overseas for investment into India.

Genuine FII has been hurt by the downturn in the European economies and the preference of investors for the safety of the dollar for investment. A genuine forensic investigation will perhaps show t5hat much of the present FII is really Indian money coming back by these routes.

To improve the situation we should remove all restrictions on foreign investment including into defence industries. There should be no compulsory cap or need for local participation. Clearances must be simplified. For this the bureaucracy and individuals in it should be made responsible in a time bound manner. Land acquisition should be made easier even if it requires an ordinance in the absence fo legislation. Inflation should be cut and for this government deficits must come down. This requires a pruing of much wasteful social welfare expenditure. So much of it is stolen or reaches the wrong targets. State governemtns should receive incentives from the Centre for becoming foreign investment friendly.

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