AGGREGATE NET FINANCIAL FLOWS TO INDIA THE RELATIVE IMPORTANCE OF PRIVATE LOANS VIS-A-VIS FOREIGN DIRECT INVESTMENTS

Sunil Mani
Parameswar Nandakumar

Working Paper No. 252

August 1993

This paper has since been published in International Journal of Development Banking, Vol. 11, No. 1, 1993.

AGGREGATE NET FINANCIAL FLOWS TO INDIA THE RELATIVE IMPORTANCE OF PRIVATE LOANS VIS-A-VIS FOREIGN DIRECT INVESTMENTS

Introduction

In recent years perhaps in an un-precedented fashion developments relating to India's external sector have captured the undivided attention of domestic as well as foreign observers. In India considerable apprehension has been expressed about the country's external indebtedness which accelerated and touched peaks - as measured by indices such as the debt service to export earnings ratio - quite alien to the Indian scene and normally only observed in countries traditionally regarded as heavily debt-bundened ones.

Such external imbalances - as reflected in persisting current account deficits and rising indebtedness - and related internal imbalances such as government budget deficits are also observed keenly abroad, at least in part, due to the process of liberalisation of the Indian economy, initiated in the mid-eighties and given a firm boost by the present government. Needless to say the success of the on-going process of trade - and to some extent, financial liberalization will depend on the confidence it inspires regarding its permanency. Examples are not lacking of countries that have started out with ambitious liberalization programmes only to abandon these, often in the face of mounting pressure on the balance of payments.[1] Past international experience suggests that liberalization programmes initiated by countries with reasonable internal and external balance are more likely to be seen through to the end.[2] This, viewed against the troubled Indian external front and government budgetary imbalances, perhaps explains the watchful attitudes of prospective international investors and clients.

The authors would like to thank I.S. Gulati, K.K. Subrahmanian, Veena Mishra, Pulapre Balakrishnan, J.V. Meenakshi, Vinod Vyasulu and participants of seminars at ISEC, Bangalore and CDS, Trivandrum for comments and suggestions. Thanks are also to D.Girija for efficient word processing.

Interestingly enough, the current situation where the liberalization process has been initiated in an economy with considerable indebtedness seems to have fostered an ambivalent attitude towards international capital flows. It is generally held that the commercialization of external borrowing has led to the debt crisis. So atleast for the immediate future, external borrowing, especially from private sources is assigned no important role in the development process. At the same time, considerable dividends are expected from attempts was also international investment. It remains to be seen whether the eagerly anticipated flow of foreign investment to India turns out to be a flood or just a thin trickle. But present trends indicate that the latter possibility is the more probable outcome. More on this point later.

Now, in general, the role of capital flows in economic development has not been a widely debated issue in India. Further the present overriding belief in the positive effects of Foreign direct investments (FDI) points to the lack of sufficient insight into the historical roles of different capital flows in the Indian context as well as elsewhere. For it seems to be quite clear that in the development process of the present day industrialised nations, international borrowing was much more important than FDI. In the nineteenth century, the Great Britain, France and Germany were the main creditor nations, lending to countries of the "new world" as well as to other colonies and to Eastern Europe. In the post second world war period, the USA also assumed the role of a chief creditor nation. Most of the capital flows before world war II was from private sources, often involving loans of very long maturities.[3]

While the broad historical trends in the volume and composition of international capital flows are clear, information on region-wise investments remain sketchy [Cardoso and Dornbusch (1989)]. And at least in the case of India, there have been virtually no studies dealing with the issue in a comprehensive fashion. The present paper may be regarded as an attempt to fill this void. This is all the more important since policy decisions regarding additional borrowing, promoting foreign investment etc. need to be made in the light of historical patterns as well as current trends.

In very specific terms, the paper attempts to answer the following questions:

(i) Historically, how important has commercial credit been as a component of aggregate capital flows to India (and to other developing nations), relative to official credit and FDI. How has its cost compared to that of other types of flows?;

(ii) What effects has the privatization of international credit from the early seventies had on the economies of developing nations, particularly on India?

(iii) Will the great expectations that FDI will prove very beneficial to the reforming Indian economy be realized on belied?

Organization and Methodology

The paper is structured into four sections. The first section maps out the broad dimensions of net financial flows to India during the 1970s and the 1980s in terms of such characteristics as its size, structure and cost. The second section, on the contrary analyses indepth the size, structure and cost of commercial lending to India against the background of such flows to the developing world as a whole. The third section delineate the growth of FDI in India, the sectors in which it has played an important role and assess the pros and cons of displaying such a freer attitude towards welcoming FDI. Finally the fourth section sums up the major findings of the paper.

The paper is largely based on secondary source material. It depends to a very great extent on one source, viz., the World Debt Tables released annually by the World Bank. Given the fact that there are a number of sources of data for mapping out the extent of international financial flows,[4] it is very important to clarify why we have chosen the above source. We attempt to answer this by taking recourse to a brief survey of the alternative sources of data, their relative merits and in the light justify our choice of the source of data for the present exercise. This discussion is followed upon by the definitioins of a number of concepts that appear in the subsequent sections.

There are essentially two main sources of data on international flows. They are the World Bank's Debtor Reporting System (DRS), and second the OECD's Development Assistance Committee (DAC) statistics. We now discuss each of these two sources in some what detail, in turn, below:

The DRS data were initially published, in increasing detail in the successive Annual Reports of the World Bank and in a series of general studies of the debt problems of developing countries.[5] Since 1966, the publication of this data was made more formal with the incorporation of these into a new Bank document which eventually (in 1973) became known as 'World Debt Tables' and has been published since then on an annual basis.

The second set of data on the DAC data are published in two separate documents on a regular basis. Firstly, the Annual Report of the DAC entitled 'Development Co-operation : Efforts and policies of the members of the Development Assistance Committee'. Though some country breakdowns are included in this document, it is essentially concerned with aggregate data on financial flows. In contrast, the second publication entitled 'Geographical

Distribution of Financial Flows to Developing Countries' includes a separate page for the major developing country receipients with information on certain

financial flows, while the volume also includes breakdowns by country of aggregate data on official development assistance and total flows. The latter documents appears less regularly than the Annual Report.

While both the DRS as well as the DAC data are comprehensive and to a large extent consistent with each other, each has its own problems.[6] After a careful weighing of the demerits of each, we have chosen the DRS because the other source, viz., the DAC data covers only the long-term financial transactions, defined as those credit flows carrying an original or extended maturity of over one year. This means all short-term financial flows have bneen excluded from this source. Such an ommission of short-term flows is particularly severe and can lead to an underestimation of especially private flows: suppliers credit which is one of the components of the private flows is typically short-term and this has been growing over time. We have therefore chosen the DRS data embodied in the successive issues of the World Debt Tables.[7]

Having settled the choice of the data base, we now discuss the various components of financial flows.

Financial flows are broadly classified into official and private depanding upon the source of such funds. Official flows could be further divided into those emanating from multilateral institutions and from bilateral sources (essentially from DAC and OPEC member countries). Private flows, on the contrary has two definitions. First a narrow definition which includes three components: commercial loans, supplier's credit and borrowings from the bond market. This we denote as private flows (I). Second a broader definition which is essentially private flows (I) plus net foreign direct investments (FDI) and other capital investments (viz., portfolio investments). This we denote as private flow (2). While the source of data is by and large the World Debt Tables (as noted above), the source of data of net FDI and other capital flows have been the monthly bulletins of the RBI.[8]

A second definitional aspect of the data is that they all refer to net financial flows. The following equation spells out this in a more clear fashion.

$$NF_t = D_t - A_t$$

where, NF_t = net financial flows;

D_t = Disbursements, which refer to those loan commitments (the total of loans for which contracts are signed in the year specified)

actually drawn during the year in question.
amortisation, representing repayment of principal; and
time subscript.

In the case of FDI and other capital inflows, net inflows means gross inflow minus outflow of repatriable funds like dividends, profit, interest on loans extended by parent company to its subsidiary etc.

Having spelt out the methodology and data sources, we now discuss the extent of financial flows to India in the next section.

I: Net Financial Flows to India

The previous section has, it is hoped, made clear that any meaningful discussion of the role played by external capital flows for generating the momentum for sustained economic growth should pay close attention to the precise nature of these flows - past and present into the country. Against that background we analyse in the present the structure and magnitude of financial flows to India during the last two decades. Special emphasis will be placed on the discernible changes in the structure of such flows to India in the 1980s. We place the discussions of it in a comparative perspective by relating the flows to India against the background of such flows to developing countries as a whole.

The trends in financial flows are analysed at two levels. First the general trends and second the trends at a more disaggregated level.

A. The General Trends

The total flows to India incorporating the two separate definitions of private flows are presented in Tables 1 and 2. Official flows used to account for a significant portion of the total flows in the 1970s.

Table 1

Aggregate net financial flows to India, 1970-1989 : Series 1
(Millions of US dollars)

Year	Official	Private (1)	Total Flows(1)
1970	605.10(102)	-12.00(-2)	593.10
1972	505.10(107)	-33.60(-7)	471.50
1973	614.10(116)	-86.80(-16)	527.30
1974	955.60(102)	-18.40(-2)	937.20
1975	1240.50(97)	40.20(3)	1280.70
1976	1029.80(94)	71.00(6)	1100.80
1977	665.20(102)	-13.50(-2)	651.70
1978	598.00(94)	41.40(6)	639.40
1979	635.80(77)	190.30(23)	826.10
1980	935.00(66)	489.00(34)	1424.00
1981	1117.00(69)	512.00(31)	1629.00
1982	1320.00(70)	646.00(30)	1892.00
1983	1336.00(70)	572.00(30)	1908.00
1984	1134.00(40)	1722.00(60)	2856.00
1985	1375.00(50)	1393.00(50)	2768.00
1986	1355.00(38)	2241.00(62)	3596.00
1987	2503.00(62)	1518.00(38)	4021.00
1988	2638.00(56)	2115.00(44)	4753.00
1989	2520.00(58)	1794.00(42)	4314.00

Note: 1. Net flows = Disbursements - repayment of principal
2. Official flows = multilateral + bilateral flows
3. Private flows(1)= commercial loans + bonds + supplier's credit
4. Figures in brackets indicate percentage share of the total.

Source: World Debt Tables, World Bank, various issues.

Table 2

Aggregate net financial flows to India, 1970-1989 . Series 2
(Millions of US dollars)

Year	Official	Private (2)	Total Flows(2)
1970	605.10(97)	20.53(3)	655.63
1972	505.10(95)	24.11(5)	529.21
1973	614.10(108)	-45.58(-8)	568.52
1974	955.60(96)	44.72(4)	1000.32
1975	1240.50(91)	122.66(9)	1363.16
1976	1029.80(94)	61.91(6)	1091.71
1977	665.20(102)	-15.67(-2)	649.53
1978	598.00(95)	29.32(5)	627.32
1979	635.80(74)	220.31(26)	856.11
1980	935.00(54)	797.61(46)	1732.61
1981	1117.00(68)	525.00(32)	1642.00
1982	1320.00(65)	712.00(35)	2032.00
1983	1336.00(68)	633.00(32)	1969.00
1984	1134.00(38)	1821.00(62)	2955.00
1985	1375.00(48)	1495.00(52)	2870.00
1986	1355.00(36)	2426.00(64)	3781.00
1987	2503.00(59)	1744.00(41)	4247.00
1988	2638.00(52)	2431.00(48)	5069.00
1989	2520.00(56)	2013.00(44)	4533.00

Note : Private flows(2) = Private(1) + Net FDI + Other Capital Investments
Source: World Debt Tables, op.cit.

But during the 1980s the share of private flows seem to have increased tremendously, though with some year to year fluctuations. The private flows(1) have been negative in the early 1970s and in 1980s implying larger outflows in the form of amortisation payments than inflows. But according to private flows(2) series it is so only for two years 1973 and 1977, thereby showing the cushioning effects of net FDI and other capital investments in the early 1970s. More on this point later. The rate of growth of private flows, defined both ways, have been at a faster rate than official flows in the 1980s. The increases in private flows have been particularly sharp since 1984. It should ofcourse be noted that all these magnitudes are in nominal terms. Nevertheless both the tables confirms the increasing importance of private flows as a source of financial flows in the 1980s and especially since the mid 1980s.

The second aspect to be analysed is the relative size of these financial flows to India. We do so by expressing it as a percentage share of:
(a) all financial flows to developing countries; and
(b) India's GDP at current market prices.

We analyse these two issues in turn.

(a) Financial flows to India as a percentage of all such flows to developing countries

Table 3

Relative size of Financial Flows to India vis-a-vis Other Developing Countries

Component	Level (billions of US dollars)									
	1970		1975		1980		1986		1989	
	1	2	1	2	1	2	1	2	1	2
Net Financial Flows	15.00	0.63 (4.2)	39.04	1.36 (3.48)	82.8	1.74 (2.09)	51.2	3.79 (7.40)	63.3	4.50 (7.11)
a. Official flows	7.98	0.61 (7.64)	16.61	1.24 (7.46)	32.5	0.94 (2.88)	23.6	1.36 (4.05)	36.0	2.51 (6.86)
b. Private flows	7.02	0.02 (0.28)	22.43	0.12 (0.53)	50.2	0.80 (1.59)	17.6	2.43 (13.81)	26.7	2.01 (7.53)

Notes: 1. Stands for all developing countries
2. stand for India
3. Figures in brackets indicate flows to India as a per cent of flows to developing countries as a whole.

Source: 1. World Development Report, World Bank, Washington, 1991, p. 24.
2. Tables 1 & 2
3. Deepak Lal. 'International Capital flows and economic development' in M.Scott and D. Lall. Public Policy and Economic Development, Clarendon Press, Oxford, 1990, p. 234.

It is seen that the total flows to India which was about 4 percent of the developing countries flows increased to about 7 percent of it since the mid 1980s. While the relative size of official flows have stagnated at around (with fluctuations) 7 per cent, it is the size of private flows which has actually increased size of total flows over the period under consideration.

As far as the structure of flows are considered the Indian pattern differs to a certain extent from the pattern of flows to developing countries as a whole. Private flows which had become an important component (approximately 57 per cent) of total capital flows to developing countries since the mid 1970s became so for India only since the 1980s and especially since the mid 1980s (about 63 percent). This shows that India displayed a greater restraint in desisting to borrow from private sources in the 1970s. But this policy appears to have been completely reversed in the 1980s and the country has borrowed increasingly from private foreign lenders. In fact for

developing countries as a whole the share of private flows in the total flows have significantly decreased in the 1980s from about 60 percent in 1980 to about 46 percent in 1989, while in the case of India it has actually increased from 34 percent to about 42 or so in the case of private flows(1) and about 45 per cent in the case of private flows(2).

(b) Size of Net Financial flows to India as a percent of India's GDP

Table 4

Financial Flows to India as a percent of its GDP
(in Millions of US dollars)

Year	GDP at current market prices	Total financial flows (1)	Total financial flows(2)
1970	53,849	593.10(1.10)	625.63(1.16)
1972	60,945	471.50(0.77)	529.21(0.87)
1973	68,647	527.30(0.77)	568.52(0.83)
1974	76,552	937.20(1.22)	1000.32(1.31)
1975	87,393	1280.70(1.45)	1363.16(1.56)
1976	87,903	1105.80(1.25)	1091.71(1.24)
1977	97,133	651.70(0.67)	649.53(0.67)
1978	117,298	639.40(0.55)	627.32(0.53)
1979	124,465	826.10(0.66)	856.11(0.69)
1980	145,491	1424.00(0.98)	1732.61(1.19)
1981	157,059	1629.00(1.04)	1642.00(1.05)
1982	168,879	1892.00(1.12)	2032.00(1.20)
1983	176,368	1902.00(1.08)	1969.00(1.12)
1984	182,737	2856.00(1.56)	2955.00(1.62)
1985	187,055	2768.00(1.48)	2870.00(1.53)
1986	207,708	3596.00(1.73)	3781.00(1.82)
1987	225,288	4021.00(1.78)	4247.00(1.89)
1988	238,948	4753.00(1.99)	5069.00(2.12)
1989	243,522	4314.00(1.77)	4533.00(1.86)

Note: 1. Figures in brackets indicate financial flows to India as a per cent of its GDP
2

Sources: 1. National Accounts Statistics, CSO, various issues.
2. Tables 1 & 2.

The table once again confirms the earlier finding that financial flows, variously defined which used to be less than a percent of the GDP in the 1970s works out to about 1.50 per cent of it during the 1980s, have increased its relative size in the 1980s.

After having analysed the general trends we now discuss the salient features of the structure of official and private flows.

B. The Disaggregated Trends

a. Structure of Official Flows

As noted earlier, the official flows emanate from two different sources, viz., (a) multilateral institutions which are essentially inter-governmental organizations such as the World Bank; and (b) bilateral sources which are essentially government to government loans and grants. These flows are on concessional as well as non-concessional terms. Official flows became an important source right from the time of independence and probably since then towards the early 1970s it used to be the only source. Table 5 maps out the trends in official flows in the 1970s and 1980s.

Table 5

Structure of Official Flows to India, 1970-1989
[Millions of US Dollars]

Year	Multilateral			Bilateral			Total official flows
	Concessional	Non-Concessional	Total (2+3)	Concessional	Non-Concessional	Total (5+6)	(4+7)
1	2	3	4	5	6	7	8
1970	53(88)	7(12)	60.00	550	-5	545.10	605.10
1972			183.00			322.10	505.10
1973			306.90			307.20	614.10
1974			385.00			570.60	955.60
1975			467.50			773.00	1240.50
1976			543.90			485.90	1029.80
1977			428.80			236.40	665.20
1978			436.60			161.30	598.00
1979			643.20			-7.40	635.80
1980	668(86)	109(14)	777.00	134(85)	24(15)	158.00	935.00
1981	802(70)	343(30)	1145.00	-16	-12	-28.00	1117.00
1982	1150(85)	209(15)	1359.00	-47	8	-39.00	1320.00
1983	858(69)	385(31)	1243.00	-32	125	93.00	1336.00
1984	821(81)	191(19)	1012.00	77(63)	45(37)	122.00	1134.00
1985	1011(81)	231(19)	1242.00	103(77)	30(37)	133.00	1375.00
1986	592(55)	480(45)	1072.00	299	-16	283.00	1355.00
1987	863(49)	898(51)	1761.00	664(89)	78(11)	742.00	2503.00
1988	683(31)	1545(69)	2228.00	343(84)	67(16)	410.00	2638.00
1989	455(28)	1183(72)	1538.00	498(56)	384(44)	882.00	2520.00

Note : Figures in brackets indicate percentage share of each sub total.
Source: World Debt Tables, op.cit., various issues.

The salient points that emerge from the Table are summarised below:

(1) Bilateral flows used to account for a larger share of official flows during the first half of the 1970s. But ever since it is the multilateral flows which accounted for the largest share. Biliateral sources now account only for a small share;

(2) Increasingly the share of non-concessional flows too have come down over time. Financial flows from both multilateral and bilateral sources are on non concessional terms, of late, implying thereby that even borrowing from official sources have tended to become costlier over time. This aspect of cost of borrowing is dealt with in some detail below.

The time has come now to do a detailed exercise on the effect of this official capital flows or foreign aid as it is more popuarly known on the country's economic growth.[9] In other contexts, studies[11] have shown the neutral effect of aid in promoting economic growth in recepient countries. According to these, the growth impact seems to depend on 'public sector behaviour which is not subject to general laws of behaviour which predetermine the effectiveness of aid; rather it varies from country to country and from period to period.[11]

The structure of private flows is analysed below:

(b) Structure of Private Flows

The private flows became an important source of external capital for LDCs in the 1970s. But for India it became really important only since the mid 1980s. It consists of five different kinds of capital flows from private sources, viz., (i) syndicated bank loans; (ii) borriwings from the bond market; (iii) suppliers credit; (iv) FDI; and (v) portfolio investments. In terms of importance it is the syndicated bank loans and FDI which takes up the maximum share. Table 6 presents the structure of private flows to India in the 1970s and the 1980s.

Table 6

Structure of Private Flows to India, 1970-1989
(Millions of US dollars)

Year	Commercial loans	Bonds	Suppliers credit	Net FDI	Net other capital investments	Total private flows(1)	Total private flows(2)
1970	6.00	--	-18.00	29.20	3.33	-12.00	23.53
1972	-10.60	--	-23.00	56.79	0.92	-33.60	24.11
1973	-19.40	--	-67.40	38.22	3.00	-86.80	-45.58
1974	-9.50	--	-8.90	60.12	3.00	-18.40	44.72
1975	0.60	--	39.60	83.41	-0.95	40.20	122.66
1976	67.00	--	4.00	-9.64	0.55	71.00	61.91
1977	21.30	--	-34.80	-30.66	1.49	-13.50	-15.67
1978	55.60	--	-14.20	-21.73	9.65	41.40	29.32
1979	252.10	--	-61.80	29.15	0.86	190.30	220.31
1980	490.00	--	-1.00	87.15	1.15	489.00	797.51
1981	492.00	--	20.00	13.00*	--	512.00	525.00
1982	289.00	10	347.00	66.00*	--	646.00	712.00
1983	495.00	19	58.00	61.00*	--	572.00	633.00
1984	750.00	232	740.00	99.00*	--	1722.00	1821.00
1985	928.00	320	145.00	102.00	--	1393.00	1495.00
1986	1494.00	339	408.00	185.00	--	2241.00	2426.00
1987	1446.00	110	-38.00	176.00	50	1518.00	1744.00
1988	1572.00	602	-59.00	199.00	120	2115.00	2431.00
1989	1257.00	678	-141.00	219.00*	--	1794.00	2013.00

Note: These are gross foreign investment approvals and not actual inflows.
Source: World Debt Tables, op.cit.

The table shows that FDI was an important source of capital inflows in the early 1970s. But in 1973 with the passage of the Foreign Exchange Regulation Act (FERA), whereby FDI were explicitly discouraged its importance as a source of finance has been considerably reduced. Infact borrowings from the bond market and syndicated bank loans have become the most important components of private flows since the 1980s. Suppliers credit for most years have been negative implying larger repayments of the principal amount (amortisation payments). Since the basic purpose of this paper is to assess the relative importance of private loans and FDI in total flows, we discuss them in some more detail in the subsequent sections.

The increased share of private flows may infact be a reflection of the fact that increasingly the supply of official flows of the concessional variety had become increasingly difficult to obtain. Second it was also necessitated by the type of import-dependent industrialisation promoted in the 1980s, which might have required such capital flows.

An aspect that has come up in our earlier discussion is the fact that there has been an increase in the cost of borrowing, both from official and private sources as well.

(c) Cost of borrowing

We consider two elements of the cost of borrowing. First the rate of interest on official and private loans and specifically the movments in the absolute difference between the two rates of interest over time. Second we consider the duration of these loans. If there is an increase in the rate of interest and a reduction in the maturity peirod, then one could conclude that there is an increase in the cost of borrowing over time. See Tables 7 and 8 respectively for the rate of interest and the maturity period.

Table 7

Cost of Borrowing : Official vs Private Loans

	Interest rate on loans (in per cent)		
Year	Official	Private	Absolute difference (2)-(3)
(1)	(2)	(3)	(4)
1970	2.2(63.7)	6.30(19.1)	-4.1
1972	1.4(71.4)	5.90(21.0)	-4.5
1973	1.9(66.6)	7.20(13.1)	-5.3
1974	2.2(63.5)	8.00(9.2)	-5.8
1975	2.3(59.0)	8.00(10.6)	-5.7
1976	3.7(48.0)	6.00(12.1)	-2.3
1977	2.5(62.8)	8,30(5.3)	-5.8
1978	1.8(72.4)	12,70(-7.8)	-10.9
1979	2.5(64.4)	15.60(011.4)	-13.1
1980	2.4(65.6)	15.60(-33.5)	-13.2
1981	3.8(53.5)	12.00(-10.3)	-8.2
1982	6.1(34.7)	8.50(7.8)	-2.4
1983	4.4(46.7)	9.30(2.8)	-4.9
1984	5.8(36.2)	9.50(2.1)	-3.7
1985	5.1(39.4)	8.30(8.1)	-3.2
1986	5.4(34.0)	6.90(15.2)	-1.5
1987	5.0(38.4)	6.60(19.3)	-1.6
1988	5.50(33.6)	7.90(10.9)	-2.4

Note : Figures in brackets indicate the grant element in per cent.
Source: World Debt Tables, World Bank, op.cit.

Table 8

Conditions of Borrowing : Official vs Private Loans

Year	Maturity period (number of years)		
	Official	Private	Absolute difference
1970	35.4(8.5)	12.9(4.5)	22.50
1972	37.4(8.5)	13.3(3.8)	24.10
1973	36.6(8.1)	10.9(4.0)	25.70
1974	34.7(8.5)	10.7(2.4)	24.00
1975	29.6(7.7)	12.7(2.3)	16.90
1976	27.9(7.2)	6.9(1.6)	21.00
1977	36.6(8.6)	7.2(1.0)	29.40
1978	44.8(9.3)	7.3(1.1)	37.50
1979	40.0(8.8)	4.8(0.6)	35.20
1980	40.8(8.6)	9.0(2.1)	31.80
1981	37.3(8.2)	10.4(4.3)	26.90
1982	32.6(7.4)	13.0(3.6)	19.60
1983	33.1(7.5)	9.5(3.5)	23.60
1984	32.3(7.7)	11.4(4.7)	20.90
1985	30.0(6.8)	9.8(4.4)	20.20
1986	25.7(6.4)	10.1(5.2)	15.60
1987	27.3(6.7)	11.5(7.5)	15.80
1988	25.2(6.7)	13.3(5.6)	14.90

Note: Figures in brackets indicate the grace period in number of years.
Source: World Debt Tables, World Bank, op.cit.

It is seen that (Table 7) while the rate of interest on official loans have actually doubled over the period those on private loans have remained more or less the same excepting for the period 1978-81. Consequently the difference beteween the two rates have been narrowed down implying thereby that the cost of borrowing from official sources is as costly as those from private sources. This further confirms our earlier finding about the decreasing share of concessional capital from official sources.

There have also been simultaneously, a tightening up of the conditions of borrowing as measured by the reduction in both the maturity and grace periiods as well (Table 8). Another interesting point is the narrowing down of the conditions of borrowing from both the sources.

All these data point to the fact that especially in the 1980s, the country has been receiving capital inflows at stiffer terms than before. Borrowing at such terms can increase the degree of indebtedness of the recepient country. We further amplify this aspect by estimating the 'debt-creating' nature of financial flows to India over the last two decades.

D. Debt-creating Flows in Total Financial Flows

An important characteristic of the financial flows in the 1980s is the fact that much of it has been debt-creating. Debt-creating flows are defined as any non-grant receipt which has to be paid back to the lender with an interest, irrespective of whether the borrowings have been put to productive use or not. FDI and other forms of capital investment are according to this definition non-debt creating as these investments start earning a return only when the recpient industrial venture is profitable. It should be pointed out that the degree of debt-creating depends on the composition of the debt creating flows. If it is composed largely of short-term loans that needs to be repaid within a year then the degree of debt-creating will be larger and so on. However due to data constraints we are unable to measure this factor. We have thus estimated the debt-creating flows in total financial flows by deducting the grant element in both official and private flows and also the FDI and other capital investments. In symbols:

$$D_t = T_t - ((g_1 O_t + g_2 P_t) + (NFDI + OCI))$$

where, D_t = debt-creating financial flows;

g_1, g_2 = grant element in percent in official and private flows respectively;

O_t = Official flows;

P_t = private flows;

NFDI = net FDI; and

OCI = Other Capital investments

The series thus derived is presented in Table 9.

Table 9

Share of Debt-creating Flows in Total Financial Flows to India, 1970-1989
(Millions of US dollars)

Year	Total Financial Flows		Share of debt-creating flows (in per cent)
	Total	Of which, debt-creating flows	
(1)	(2)	(3)	(4)
1970	655.63	209.95	33.56
1972	529.21	118.12	22.32
1973	568.52	129.68	22.81
1974	1000.32	332.08	33.20
1975	1363.16	544.54	39.95
1976	1091.71	597.91	54.77
1977	649.53	261.87	40.32
1978	627.32	209.68	33.42
1979	856.11	438.33	51.20
1980	1732.61	1145.87	66.14
1981	1642.00	1084.14	66.03
1982	2032.00	1457.57	71.73
1983	1969.00	1268.07	64.40
1984	2955.00	2409.33	81.53
1985	2870.00	2121.42	73.64
1986	3781.00	2794.67	73.91
1987	4247.00	2766.88	65.15
1988	5069.00	3636.09	71.73
1989	4533.00	NA	NA

Note: 1. We have used the broader definition of total flows i.e. total flows (2) here.
2. The debt-creating flows for 1989 could not be derived due to non-availability of data on grant element

Source: For Column (2): Table 2.

The Table shows the interesting result that the share of debt-creating flows which was only a third of the total flows in the 1970s have increased to nearly three-fourths of it during the 1990s. If this is the trend then it could reasonably be argued that the more we borrow in this fashion, the more it would add to our bourgeoning external debt.

In this section we have analysed in detail the quantity and structure of financial flows to India over the last two decades. The following salient inferences emerge:

(i) the share of private flows have increased very much in the 1980s'

(ii) the cost of borrowing (from both official and private as well) have gone up during the 1980s;

(iii) the difference in the cost of borrowing from official and private sources have narrowed down considerably in the 1980s. In other words

the cost of borrowing from official sources is almost as much as from private sources;

(iv) the share of debt-creating flows have increased considerably in the 1980s; and

(v) Within private flows the two most important components are net FDI (in the early 1970s) and private loans (in the 1980s). We now analyse these two flows in somewhat more detail in the subsequent two sections.

II: Commercial Lending : Its Growth, Structure and cost with reference to India

A. The Growth of Commercial Lending to the developed world

The international capital flows, upto the second world war was overwhelmingly of the private kind. The post-war era saw a vigorous growth in private capital flows to the developing nations from bilateral sources as well as multinational institutions. It was only in the early seventies that commercial lending became an important source for countries in Latin America to begin with.

It has been argued [Griffith-Jones and Sunkel (1986)] that the increased flow of commercial capital to the developing world primarily to the Latin American countries in the 1970s - was to no mean extent due to the increased availability of funds with commercial banks. Financial innovations that reduced the risks involved to the creditor also seem to have played an important role in this development. With the emergence of the petro dollar and the Eurodollar markets in the 1970s, the increasingly transnationalized banks - often American - found that the scale of their lending activities could be stepped up profitably. Pooling of risks among the group of lendeer banks could reduce the risks involved for any single creditor, and appropriate risk premiums could be imposed depending on the profile of the borrowers.

Now, while the supply of commercial capital seems to have received a boost in the 1970s, there was no shortfall of demand for it. Following the oil price shock of 1973, countries in Latin America did not undertake the warranted adjustment and austerity programmes. Increased current account deficits were covered by additional international commercial borrowing. Private lending, unlike intergovernmental and multilateral lending does not specify the purposes to which the funds may or may not be put. So whereas loans from inter-governmental sources were often used up for building up the infrastructure etc., private loans seem to have been used for maintaining higher consumptioin levels when restraint was the best course.[12]

In some Latin American countries, for instance in Argentina and Chile, commercial borrowing by the government actually financed capital flight.

The easy access to commercial credit came to an end when Mexico defaulted on the external debt in the beginning of the 1980s. This occured at a time when developing countries needed external capital badly to finance economic growth. With the drying-up of the capital flows, and faced with the necessity to service their huge stocks of external debt, these countries were, paradoxically, forced to become net exporters of capital.

B. The Growth of Commercial Loans to India

As seen above, the easier access to commercial credit in the 1970s seems to have been destabilizing, at least in some respects, for the developing countries. As pointed out in section I India had not really made use of this facility then; Table 1 shows that it was only from 1980 onwards that private financial flows became important in the Indian context. From the Table it may be noted that private financial flows excluding FDI was only around 6 per cent of the total capital flows in 1978; it had jumped to a share of 34 percent by 1980, and by mid-eighties comprised 60 per cent of the total. This share came down somewhat by the end of the decade and remained at around 40-45 per cent.

We now examine the structural changes in private flows. This is attempted at two levels: first by analysing the various components of private flows (Table 6) and second by analysing the components of commercial loans (Table 11 given below). Each of the two issues are discussed in turn.

(i) It can be seen (from Table 6) that after 1975, FDI ceased to be a significant component of net private financial flows. In 1975 FDI accounted for 68 per cent of private financial flows; in 1980 their share had come down to 11 per cent at which level it remained more or less stagnant upto the end of the decade. After 1975 the dominant form of private flows have been commercial loans, though in certain specific years during the period (i.e., in 1982, 1984 and 1989), suppliers credit and bonds have also figured importantly. In 1976 commercial loans accounted for 94 per cent in 1985, for 67 per cent and in 1989 for 70 per cent of these flows. Bond-financing has been growing in importance since early eighties, and this component of private financial flows accounted for a share of 38 per cent in 1989.

Another point to be noted is that the volume of commercial borrowing grew and because the dominant part of private financial inflows, the private component of total financial inflows also gained importance. So the

increasing privatization of capital inflows to India has essentially been synonymous with increased commercial lending.

It will be quite instructive now to analyse the relative importance of commercial loans viz a-vis FDI in meeting the current account deficit of the country during the period.[13] See Table 10.

Table 10

Current Account Deficit vis-a-vis Financial Flows
(Millions of US dollars)

Year	Current account Deficit*	Financial Flows: Commercial Loans	Financial Flows: Net FDI
1970	--	--	--
1972	- 772.40	-10.60	56.79(7.35)
1973	- 519.00	-19.40	38.22(7.36)
1974	- 571.00	- 9.50	60.12(10.53)
1975	- 963.00	+ 0.60(0.06)	83.41(8.66)
1976	- 92.90	67.00	- 9.64
1977	+1270.90	21.30	-30.66
1978	+1538.30	55.60	-21.73
1979	- 297.50	252.10(85)	29.15(10)
1980	- 945.60	490.00(52)	87.15(9)
1981	-2805.60	492.00(18)	13.00(0.50)
1982	-3142.10	289.00(9)	60.00(2.00)
1983	-2841.00	495.00(17)	61.00(2.00)
1984	-2605.50	750.00(29)	99.00(4.00)
1985	-2909.80	928.00(32)	102.00(4.00)
1986	-4844.60	1494.00(31)	185.00(3.81)
1987	-4562.50	1446.00(32)	177.00(3.88)
1988	-4853.20	1572.00(32)	196.00(4.04)
1989	-7188.40	1257.00(17)	219.00(3.05)

Note: * The figures in Indian rupees have been converted into US dollars using end-year exchange rates. The exchange rates have been taken from International Financial Statistics, International Monetary Fund, various issues.

Source: 1. Economic Survey, Ministry of Finance, Government of India, various issues.
2. Table 3.

In some years, commercial loans have covered a large part of the deficit, for instance 85 per cent in 1979 and 52 per cent in 1980. In the mid to end-eighties, around 30 per cent of the current account dificit was financed by commercial loans. FDI has never been important in this respect, having never been equivalent to more than 4 per cent of the current account deficit in any year.

(ii) We now analyse the second aspect, viz., the components of commercial loans. At the very outset we need to spell out certain aspects of the data. The DRS system contained in the World Debt Tables does not give us the

components of commercial loans. So in order to provide a break up of this aspect we have relied on the only two sources which reports this data, viz., the annual Economic Surveys released by the government (the Union Ministry of Finance) and the annual reports of the Ministry of Finance. The former source reports the authorisation, gross inflow, amortisation and net inflow of external commercial borrowings to India during the period 1986 thoreough 1990.[14] All these data are presented only at the aggregate level. The latter source reports only the authorisation of external commercial borrowings but reports the data according to the sector for which the borrowings have been effected.[15] Since we are essentially interested in the sector-wise breakup of these authorisations, we employ the latter source. (See Table 11)

Table 11

Sector-wise Break up of External Commercial Borrowing Authorisation

(In millions of US dollars)

Year	Public Sector	Financial Institutions	Procurement of ships	Private Sector	Total
1981	935.64	--	103.96	159.40	1199(NA)
1982	413.41	159.65	285.47	414.47	1273(NA)
1983	1528.76	131.68	107.92	237.63	2006(NA)
1984	404.88	104.74	302.78	142.59	955(NA)
1985	877.46	128.47	228.66	306.22	1540(NA)
1986	777.15	310.53	60.47	241.07	1389.23(979)
1987	612.98	195.47	50.82	232.21	1091.48(1295)
1988	1232.26	623.84	24.68	165.79	2046.58(992)
1989	1666.90	934.64	136.78	241.78	2980.11(1829)
1990	2102.86	798.78	114.63	271.26	3288.12(1558)

Note: Figures in brackets indicate net inflow (i.e. Gross inflow minus amortisation)

Source: 1. Annual Report, Ministry of Finance, Government of India, New Delhi, 1990-92, p. 32.
2. Economic Survey, Ministry of Finance, Government of India, 1990-91, p. 166.

There has been a distinct increase in the authorisation of these private loans since 1986: the average authorisation during the pre-1986 period worked out to US dollars 1.4 billion against an average of 2.16 billion in the post 1986 period thereby registering a growth of nearly 55 per cent. Much of these borrowings have been by the public sector enterprises per se: on an average 51 per cent of the total during the period as a whole (57 per cent of the pre 1986 and 58 per cent of the post 1986 period). However the picture changes if one were to add almost the entire borrowings of the financial institutions (which in any case ultimately go towards the private sector only) and one half of that incurred for procurement of ships to the private sector borrowings, then private sector's share is almost 50 per cent. In that sense

it would be misleading to infer that much of the commercial loans have been borrowed by the public sector. The private sector also accounts for an equally large share.

The second step would be to analyse to the extent possible (given data constraints) to find out the purpose for which these loans have been borrowed by both the public and private sectors. We begin with the public sector case. See Table 12.

Table 12

Industry-wise distribution of actual external commercial borrowings in public sector enterprises during the 1980s

Industry/sector	Percentage share (1980-81 to 1989-90)
1. Oil exploration/refining	63.32
2. Power generation	17.98
3. Steel manufacturing	10.85
4. Coal	7.27
5. Passenger cars	0.43
6. Fertilizer	0.16
Total	100.00

Source: Expenditure Budget, Vol. 1, Government of India, various issues.

A lion's share of the public sector borrowing has been for oil exploration and given the emphasis placed in import-substitution in this crucial energy input, one could rationalise this.

Turning now to the private sector borrowings, the position is very different. Data are available only for three recent years, viz., 1988-89 through 1990-91. See Table 13.

Table 13

Industry-wise distribution of external commercial borrowings approvals : Private Sector Enterprises (Average for 1988-89 and 1990-91)

Industry	Percentage distribution
1. Petrochemicals	22.49
2. Steel	15.88
3. Electricity Generation	12.60
4. Automotive Tyres	10.32
5. Synthetic Fibre	6.68
6. Automotive Industry[1]	6.29
7. Consumer Goods	5.69
8. Electronics	2.10
9. Services and Others[2]	17.94
Total	100.00

Notes: 1. The category includes commercial vehicle and component industry.
2. This is a motely assortment of various categories.
Source: Compiled from Assocham Parliamentary Digest, No. 7, (2.8.91 to 8.8.91), pp. 424-6.

The private sector borrowings, on the contrary, seems to be for a very wide range of products. The relatively larger share of the service sector needs some further explanation. Infact this wreck less borrowings indulged in by the private sector with the approval of the government seems to be one of the prime reasons for the country's external debt crisis.

Finally before moving on to a discussion of the growth of FDI in India, it may be appropriate to summarise the main points made in this section.

(a) India did not follow the lead of Latin American countries in going for the external commercial borrowings in the 1970s. It was only from 1979/80 onwards that private financial flows assumed importance in the Indian context;

(b) Amoing the various components of private financial flows, commercial loans have been dominant, for more than FDI Private loans have also readily gained importance even as a part of total financial flows;

(c) As noted in the earlier section, while the cost of official borrowing has been approaching that of commercial borrowings in recent years, the increased dominance of commercial loans in total borrowing, and the growth of these in absolute terms, has probably played a key role in worsening the country's debt burden;

(d) Private sector external commercial borrowing has grown more than that undertaken by the public sector, during the last decade. Second private sector borrowings, broadly defined, accounts for nearly one half of the total borrowings; and

(e) The industry-wise distribution of these private loans showed that over two-thirds of the borrowings have been for oil exploration in the case of the public sector, the private sector borrowings have been for a whole range of industries, some of which have even fairly dubious connotations.[16]

110383

III: Foreign Direct Investment : Its Growth as a source of External Financial Flow in the Indian Context

The FDI inflows to India, as an important source of external capital, will have to discussed against the context of such flows to the developing countries in general. There at atleast two dimensions to this aspect, viz., (a) the recent trends in FDI inflows to the developing world which shows that there has been a fall in the relative share of such flows to the developing countries coupled with considerable concentration of it in small number of countries; and (b) the sectoral distribution of the outward stock of FDI which shows considerable concentration of it in the services sector. We analyse each of these two dimensions inturn.

A. Recent trends and concentration in FDI inflows to developing countries

The FDI inflows have overtime grown as a major source of finance to the developing world. The growing importance of FDI inflows to these countries is best summarised by UNCTAD (1988)[17] which states that, "faced with a very limited savings capacity, a mounting debt-service burden, slow growth and even stagnation of export earnings and concessional flows as well with the virtual collapse of commercial bank lending LDCs have been turning towards FDI as a means of securing financial resources for their economic development and structural transformation." Infact this is clearly borne out by the fact that FDI is the major source of private flows to the developing countries in the late 1980s. See Table 14.

Table 14

Net Financial Flows to Developing Countries

(percentage shares)

	1960	1970	1980	1989
1. Total official flows (net)	62	51	43	48
2. Total private flows (net),*	38	49	57	42
Of which, FDI	2	4	10	35

Note: * Private flows include grant by voluntary agencies also.
Source: 1. Development Co-operation, OECD, various issues.
2. World Development Report, World Bank, 1991, p. 24.

From a mere two percent of total flows in 1960, FDI has grown into accounting for almost two-thirds of total financial flows to developing

countries. Second, it (i.e. Table 14) also shows the drying up of commercial loans as a source of finance to these countries. In terms of its share in the gross domestic investment of these countries, FDI inflows account for 6 per cent, as against only about 3 per cent or so for the countries in developed market economies.[19] It is also found that for most of the developing countries, FDI is relatively speaking more important in the manufacturing sector than it is in the primary and services sectors.[20]

Though the average annual inflows to the developing countries have increased (in an absolute sense) by three times between 1975-80 and 1985-89, their share in the world-wide inflows between these two periods fell from 23 per cent to 19 per cent. See Table 15.

Table 15

Distribution and Growth of FDI Inflows into Developing Countries, 1975-1989

Annual Average inflows (in billions of dollars)

	1975-1980	1980-1984	1985-1989	Rate of growth[3]
	I	II	III	(in percent)
All countries	32.80	49.70	119.00	262.80
Developing countries1	7.50 (22.86)[2]	12.50 (25.2)	22.20 (18.60)	196.00
Of which;				
(a) Africa	0.80 (2.4)	1.20 (2.4)	2.60 (2.20)	225.00
(b) Latin America and Caribbean	4.00 (12.2)	6.10 (12.3)	8.30 (7.00)	107.50
(c) South and South East Asia	2.00 (6.10)	4.70 (9.4)	10.70 (9.00)	435.00
(d) West Asia	0.70 (1.83)	0.39 (0.8)	0.40 (0.30)	-33.33
(e) Others[1]	0.10 (0.30)	0.19 (0.30)	0.17 (0.10)	70.00

Notes: 1. Includes Oceania and in the 1980s period also Malta and Yugoslavia.
2. Figures in brackets indicate percentage share of the total.
3. These are simple growth rates.

Sources: 1. UNCTC. The CTC Reporter, No.26 (Autumn), 1988, p.12.
2. UNCTC. The World Investment Report, 1991, p. 11.

The largest increase is registered by the developing countries in the South and South East Asian region and as a result that is the only region which has managed to atleast maintain its relative share and thereby emerge as the single largest receipient among the developing countries.

An important point to be noted is that there is considerable concentration of FDI inflows to the developing world in as much as over three-fourths of the inflows to the LDCs have been in two regions, viz., Latin America and Asia (excluding W.Asia), and even within these regions a lion's share of the inflows are concentrated in about 10 countries. See Table 16.

Table 16

Concentration in FDI Inflows to the Developing Countries

Host economies	Average Annual Flows (billions of dollars)		Growth rate (in percent)
	1980-84	1985-89	
A. Latin America			
Argentina	0.44	0.73	66
Brazil	2.10	1.59	-24
Colombia	0.40	0.56	40
Mexico	1.50	2.02	35
Total/Average for these countries	4.44	4.90	10
B. Asia			
China	0.53	2.49	369
Hongkong	0.68	1.65	143
Malaysia	1.13	0.83	-27
Singapore	1.39	2.50	80
Thailand	0.29	0.72	148
Total/Avrage for these countries	4.02	8.19	104
C. Africa			
Egypt	0.56	1.23	120
D. Total for the 10 Largest host economies	9.02(75)	14.32(66)	59
E. Total for the all countries in the three regions as a whole	12.99(96)	21.60(97)	80
F. Total for all developing countries	12.50(72)	22.20(65)	78

Notes: 1.Figures in brackets indicate percentage share of D in E
2.Figures in brackets indicate percentate share of E in F
3.Figures in brackets indicate percentate share of D in F
Source: World Investment Report, 1991, op.cit., p. 11.

The following salient points emerge from the Table.

(1) There is considerable concentration in FDI inflows to developing

countries in as much as ten host economies accounted for little over two-thirds of all flows to the region during the 1980s as a whole. But if one were to break the whole period into two sub periods: the early 1980s and late 1980s, then there is a fall in the concentration during the latter period;

(2) Within the largest recepients, while the share of Latin American countries decreased by 15 percentage points in the latter period, the Asian countries have managed to increase their share by as much as 12 percentage points;

(3) The Asian countries have on an average experienced higher rates of growth;

(4) There is rather heavy concentration of FDI inflows to Africa in the sense that one country, viz., Egypt alone accounts for a significant share;

(5) China has registered the highest rate of growth among all the countries. But a closer scrutiny[21] of the Chinese data revealed that over two-thirds of all the investment into China emanated from Hong Kong and Taiwan - essentially from non-resident Chinese and not from TNCs in the West or Japan; and

(6) The FDI inflows into the developing countries have fallen (in the latter period) in a relative sense. Second there is concentration in the distribution of it. This would in consequence imply a greater intensity in competition among the various developing countries in their bid to attracting larger inflows into their respective economies. In other words the competition for FDI inflows among the developing countries is likely to be very intense in the 1990s.

Our discussion of the FDI inflows into developing countries raises atleast two questions that needs to be answered. They are:

(a) the precise reasons as to why the FDI inflows to the developing countries have shrunk (in a relative sense) in the 1980s; and

(b) the reasons as to why there has been shift in FDI inflows away from the traditional host economies in Latin America to the newly industrializing countries of Asia.

We attempt to answer each of these two issues in turn:

There is essentially one factor[22] which explains the fall in the relative share of FDI inflows to developing countries. First of all there is a general factor which applies to all the LDCs across the board. This is based on the investment behaviour of TNCs. The investment decisions by TNCs either abroad or at home are an integral part of their global strategy. Thus the decision to reduce investment in one geographical area or country is

likely to be the obverse of increasing investments elsewhere. TNCs have tended to give priority to strengthening their positions in their home market and in other developed market economies. This coupled with the poor economic performance in much of the developed countries explains this shift in FDI inflows.

The second issue of the shift away from Latin American countries can be attributed to the worsening of the economies of the region in the 1980s while the relatively high per capita incomes or rapid rates of economic growth in the South Asian Countries seems to have made foreign investments in these countries quite attractive. Specially the low rate of growth of GDP (on an average of about a per cent during the 1980s) leading to a weak domestic demand and the debt crisis which led to acute balance of payments difficulties have led many countries to impose restrictions on the use of foreign exchange which made repartriation of capital and profit extremely difficult for the TNCs. These factors made the Latin American countries less attractive. The investments that were lost to Latin American countires found a new home in South Asia. In very specific terms the countries of this region possess certain characteristics which are attractive to foreign investors. See Table 17.

Table 17

Characteristics of Largest Host Economies of South and South East Asia

Specific characteristics	Host economies
1. Largest domestic market	China, Indonesia and Thailand
2. Conditions favourable to the establishment of low-cost export-oriented manufacturing units*	Hong Kong, Malaysia, Singapore, Taiwan Province
3. Availability of petroleum and other natural resources	Indonesia and Malaysia

Note: * This consists of low labour costs, availability of skilled manpower and well developed infrastructure.
Source: The CTC Reporter, 1988 (op.cit.), p. 11.

Most of these countries have also been opening up their investment regimes. However two recent studies[23] made by the UNCTC have reached the conclusion that it is economic strength and not merely the openess of investment regimes that act as a prime determinant of where TNCs will locate their invesmtents. Both the studies investigate the specific factors that

influence the locational preferences of TNCs by analysing in detail the changes in host country regulations with respect to FDI. According to these removing investment restrictions, is effective only when there is economic growth or underlying development potential. In more specific terms, the first of the two studies analysed the relationship between government policies and FDI. It identified 321 policy changes world-wide. Most of these policy changes occurred in the area of taxes, subsidies and fiscal incentives. Performance requirements, which entail requirements with respect to (a) local content; (b) trade balancing; and (c) export, was an area which saw the minimum number of changes particularly in the case of developing countries. See Table 18.

Table 18

Nature of Liberalization of Economic Policies with respect to FDI in Developing Countries
(cumulative 1977 through 1987)

Nature of Liberalization	Number of changes
1. Taxation and remittances	37
2. Simplified investment procedures	25
3. Ownership	24
4. Currency convertability	21
5. Sectoral restrictions	21
6. Price controls	19
7. Performance requirements	2
Total	149
Total changes world-wide	321

Source: UN CTC. Government Policies and Foreign Direct Investment 1991.

The important point to be noted is that despite these changes, FDI increased only in a handful of countries in the developing world. And in those countries, as noted in Table 17 above, policy changes were made against a background of strong economic and consumer demand.

The second study made a detailed survey of the empirical evidence on the determinants of FDI. The major conclusion of the study is that firms are investing abroad to serve local or regional markets. The major changes that have taken place in production technology have rendered the use of cheap labour for third-country export less attractive now than say five years ago. The major factors that impinge upon preferring to locate in a specific country or region is determined by availability of efficient supply and distribution

networks, sound infrastructure, skilled labour and above all the possibility of demand growth.

The lessons of these two studies should act as important pointers to developing countries like India which have been liberalizing its policies with a view to attracting more foreign investments. Our analysis of the recent trends in FDI inflows to developing countries reveal the following:

(a) the relative share of FDI inflows to the developing world have decreased during the latter half of the 1980s;

(b) there is heavy concentration of it in a small number of countries in the South and South East Asian region;

(c) liberalization of policies with respect to foreign investments is only a necessary condition and not sufficient to attract FDI. Economic strength coupled with a growing internal demand in prospective host economies are the different conditions.

(d) the prospects for enhanced flows of FDI to developing countries in the 1990s remain uncertain.[24]

B. Sectoral distribution of outward stock of FDI

The increase in FDI flows in the 1980s was also coupled with a transformation in the sectoral composition of both stocks and flows of FDI. Infact some $ 300 billion (or 40 per cent) of the world stock of FDI and some $ 25 billion (or 50 to 60 per cent) of the world's annual flows of FDI consist of services.[25] In contrast in the 1950s, FDI was concentrated in raw materials, other primary products and resource-based manaufacturing. The growing importance of services in the sectoral distribution FDI outflows is mapped out in the following table.

Table 19

Share of Service Sector in FDI Outflows for five major home countries

	1981-1984	1985-1989
	(Percentage share)	
1. United States	52 (48)	57 (43)
2. France	41 (59)	49 (51)
3. Japan	61 (39)	73 (27)
4. United Kingdom	35 (65)	38 (62)
5. Germany	55 (45)	64 (36)

Note: Figures in brackets indicate percentage share of the non services sector

Source: UNCTC. The World Investment Report, 1991, p. 16.

Within the broad services sector, the bulk of services FDI is contributed by banking and other financial services along with wholesale and retail trade. The rise to dominance of services FDI has resulted from a host of factors related to the pattern of economic development, policy changes, technological advances and the strategies of both services and industrial TNCs.[26] So the developing countries which wants to attract substantial FDI will have to necessarily liberalize their services sector in order to attract enough FDI.

It is against this background of rapid changes that one has to analyse the inflow of FDI to India.

C. FDI inflow to India[27]

We first discuss, very briefly, the changes in official policy with respect to FDI and thereafter the trends in it, with an emphasis on the recent development.

At the outset it is essential to clarify the concept of FDI, as there is considerable differences in its definition across various countries. In India FDI is defined[28] as investments in:

(i) Indian companies which are subsidiaries of foreign companies;

(ii) Indian companies in which 40 percent or more of the equity capital is held outside in any one country; and

(iii) Indian companies in which 25 percent or more of the equity capital is held by a single investor abroad.

(a) The official policy with respect to FDI

Though there were exchange control restrictions in India since the passage of the Foreign Exchange Regulation Act, 1947, regulation of FDI was made explicit only since the enactment of a more comprehensive FERA in 1973. As per the provisions of this Act the foreign equity holding in any Indian company should not exceed 40 per cent. There were exceptions to this general rule: investments can also be made with repatriation rights upto 74 percent of equity (without any minimum limit) provided the industry is export-oriented or is in the 'core' sector. Later to provide more flexibility, the government decided to introduce a level of 51 percent. This level of foreign equity was permitted in cases where the company had a turnover of atleast 60 percent in the core sector activities and exported at least 10 percent of their output. In the extreme case of 100 percent export oriented units, the foreign equity share could even increase to 100 per cent. In addition to prescribing these

limits on foreign equity participation, the government at various points of time beginning 1969 published four lists of industry groups specifying the roles allotted to foreign capital in each group.

The New Industrial Policy Statement, announced in July 1991 and the subsequent notifications has considerably relaxed the conditions governing foreign investments. Automatic clearances are given by RBI for investment proposals which entail foreign equity participation to the tune of 51 per cent virtually in all industries excepting for a select group of defence related industries which are exclusively reserved for public sector. The ventures which does not fall into this category can go through the normal route of the Secretariat for Industrial Approvals (SIA). Then there is the newly created special empowered board called the Foreign Investment Promotion Board to consider and approve foreign investment proposals involving substantial investments or what is now termed as 'mega projects'. Further the foreign investors are allowed to open branches and liaison offices, use foreign trade marks on Indian products manufactured under foreign collaboration, have equal status with Indian companies in being allowed to borrow from the Indian capital market and they are also exempt from the requirement of MRTP clearences etc. Various performance requirements, which were earllier rigidly enforced like local content requirements, trade-balancing and export requirements are no longer going to be insisted upon. The only exception is that dividend payments will have to be balanced with exports.[29] In short the government have considerably reduced the height of barriers to entry for foreign investors.

It is against these two changes, namely the changes in FDI inflows world-wide and also against the changes in domestic policies with respect to FDI with a 'more foreign-investor friendly' investment regime that we analyse the trends in it in the Indian context.

(b) Trends in Foreign Direct Investment

Before we go on to discussing trends in FDI it is important to clarify the concept of FDI in the Indian context. We had seen already that FDI refers to investments in:

(a) branches/subsidiaries of foreign TNCs operating in India; and
(b) foreign controlled rupee companies.

There are essentially two concepts of FDI: the stock of FDI at the end of a period and second the flow of it during a period. Second total FDI is made up of three components:

(i) net lending by the parent company to its Indian affiliate; (ii) reinvested earnings by Indian affiliates; and (iii) fresh equity capital investments (above 25 per cent) in Indian ventures.

We first analyse the stock of FDI, and thereafter the trends in the flow of it since the 1970s. Data on stocks are available only at the aggregate for FDI as a whole while the those on flow are available component-wise. See Table 20 for the trends in the stock of FDI.

Table 20

Trends in the Stock of FDI

(in millions of US dollars)

Year (as on March 31)	FDI Stock
1970	980.53
1971	1023.07
1972	1075.63
1973	1166.89
1974	1131.98
1975	1161.46
1976	1068.19
1977	1052.86
1978	1070.90
1979	1113.74
1980	1187.28
1981	NA
1982	NA
1983	NA
1984	NA
1985	NA
1986	1234.73
1987	1344.14
1988	1430.32

Source: Reserve Bank of India Bulletin, July 1975, December 1984, April 1985 and April 1991.

The Table shows that the total stock of FDI stagnated at around 1 billion dollars throughout the 1970s a reflection of the rather strict enforcement of FERA, 1973. The stock increased to around 1.3 billion, on an average, during the 1980s. It is interesting to note that the total stock of FDI in the country is even less than the average annual inflow to countries like China, Brazil and Mexico during the latter half of the 1980s (Table 16). This shows the relative size of FDI stock in India.

We now analyse the trends in the flow of FDI during the period. See Table 21.

Table 21

Trends in the Flow of FDI : Component-wise

(in million of US dollars).

Year	Components of FDI			Gross inflow of FDI (2+3+4)	Net Inflow
	Reinvested earnings	Fresh equity capital	Net lending by parent company to its affiliate		
(1)	(2)	(3)	(4)	(5)	(6)
1970	38.67	8.80	- 16.67	30.80	29.20
1971	37.42	12.78	- 5.27	44.93	44.00
1972	44.66	4.87	11.46	60.99	56.79
1973	43.20	4.58	- 8.61	39.17	38.22
1974	46.79	2.72	20.99	70.50	60.12
1975	110.50	3.46	17.90	131.86	83.41
1976	52.74	4.40	- 54.29	2.85	- 9.64
1977	42.45	5.72	- 37.64	10.53	-30.66
1978	66.30	7.08	- 80.10	- 6.72	-21.73
1979	70.73	9.22	- 31.24	48.71	29.15
1980	80.28	12.34	4.20	96.82	87.15
1981	NA	13.00*	NA	13.00*	13.00*
1982	NA	65.98*	NA	65.98*	65.98*
1983	NA	61.02*	NA	61.02*	61.02*
1984	NA	91.68*	NA	97.68*	97.68*
1985	NA	101.99*	NA	101.99*	101.99*
1986	151.13	--	33.50	184.63**	185.63**
1987	78.79	60.20	38.31	176.70	176.70
1988	195.90**	--	NA	195.90**	195.90
1989	NA	218.72*	NA	218.72*	218.72*

Note: * These are only approved equity investments; data on other components are not available.

** These actual reinvested earnings plus fresh equity capital; data on net lending parent to affiliate are not available.

Source: RBI Bulletin, various issues.

Before we proceed to analyse the above Table it is very important to make some comments about the data. For the period 1981 to 1989, with the exception of 1987, we have essentially used approved foreign equity investment flows only as details on the other components are not available. Second the equity investment approvals include both direct and portfolio as well. With these qualifications the following salient points emerge from the above table.

1. Reinvested earnings accounts for a lion's share of the gross inflows of FDI reflecting the pattern in most countries;
2. The cash component in equity inflows is quite limited;
3. Net lending by parent companies have been negative for most years.
4. These have been a fall in net FDI especially since 1973 reflecting the effect of FERA; and
5. The average annual inflows of FDI to India during the 1980s was a meage

0.12 billion US dollars while it was about 7 billion dollars for developing countries as a whole.

Our an analysis so far has shown very clearly the fact that inflows of FDI into India during the period have been quite meagre. However the government have recently (i.e. since July 1991) liberalised various policies whereby a whole host of restrictions on foreign investments have been removed. While it is too early to examine whether these have actually resulted in substantial inflows of foreign investment into India, preliminary data indicates that it has been in the order of about 0.21 billion US dollars in 1991 (.5 billion in 1990). But then these figures refer to all foreign private investment approvals (i.e. direct investments + portfolio investments).

The rationale for this freer attitude towards opening up of our investment regime was not merely on the hope that it may bring in substantial investments but also that it would promote Indian exports and that it would bring in state-of-the art technology.

We now comment upon each of these three objectives in turn.

As far as whether it would bring in substantial investments is concerned we have already expressed our doubts that it may not. The doubt was based against the context of recent trends in FDI inflows which showed both a reduction in the relative share of developing countries and the considerable concentration of it in selected countries. In addition it has been shown that openness of investment regime is not a sufficient condition for reaching substantial investments but rather the economic strength and a growing internal market (as reflected by rising per capita incomes and a more equal distribution of it). Second, we had also noted that the major recepient of FDI inflows is the banking and financial related services sector. India has so far not opened up this sector pending the implementation of one of the recommendations of a recent committee on the financial system[30] (popularly known as the Narasimham Committee). This committee has recommended the opening up of banking sector also for financial investments from abroad. Infact our doubts about India's capability to attract substantial investments is borne out by an analysis of some of the so-called mega foreign proposals that were approved recently. See Table 22.

Table 22

Profile of Major Foreign Investment Proposals Cleared by the Foreign Investment Promotion Board
(Approvals in millions of US dollars during August 1991 - March 1992)

Sl.No.	Name of host company	Name of foreign collaborator	Industry/Product	Total Investment cost	Of which the foreign equity participation
1	2	3	4	5	6
1	Hindustan Motors	General Motors, USA	Fuel efficient cars and automotive components	307.69(9.75)[1]	30.00(30)[2]
2	Maruti Udyog New Delhi	(i) Ford Motors,USA	Aluminium radiators	NA	2.66 (56)
		(ii) Suzuki,Japan	expansion of existing capacity by 70,000 additional cars/year	NA	8.46(50.00)[3]
3	Godrej Mfg Co Bombay	General Electric USA	White goods (refrigerators, washing machines etc.	27.69	18.46(66.67)
4	Francis Klein & Co., India	GERB, Germany	Vibration insulation systems	0.29	0.17(58.62)
5	Sujal Engineering	Buhler, Switzerland	Agro processing	0.46	0.23(50.00)
6	JN Britannia Calcutta	Cococola, USA	Snack foods & soft drinks	10.33(65.85)	6.80(66)[4]
7	Saf Yeast, Bombay	Leaseffre, France	Yeast	NA	0.47(51)[5]
8	Mount Everest	Dr. Dadi Balsara Singapore (NRI)	Mineral Water (100% EOO)	NA	(a)NRI equity 51 percent (17.68) (b)Foreign equity 49 percent (6.95)
9	Dadi Watches and Electronics	-do-	Quartz Watches	NA	(a)NRI equity 51 percent (4.42) (b)Foreign equity 49 percent (4.25)
10	To be incorporated	-do-	Perfumes & Cosmetics	NA	(a)NRI equity 51 percent (4.42) (b)Foreign equity 20 percent (1.73)
11	Dadi Resorts & Hotels	-do-	Hotels & Restaurants	NA	(a)NRI equity 51 percent (4.42) (b)Foreign equity 20 percent (17.33)
1	2	3	4	5	6
12	Indian Shaving Products	Gillette, USA	Razor blades & advanced shaving systems	NA	0.18 (51)
13	Pepsi Foods Chandigarh	Pepsico, USA	Produced potato/grain foods, soft drink concentrates	NA	11.83 (44.35)
14	Motorola	Motorola, USA	Data communication network products and software	NA	1.26(NA)
	Total			346.46 (18.51)	64.12[6](11.48)[7]

Notes:
1. The figures in brackets in this column indicate the percentage share of foreign equity participation to the total investment cost proposed.
2. The figures in brackets in this column indicate the percentage share of foreign equity in total equity of the proposed venture.
3. Consequent to this enhanced equity participation by Suzuki, its total equity participation (i.e. the original plus enhanced) has gone upto 50 percent.
4. Though the US TNC cococola is the ultimate foreign investor in this venture, the investments have been channeled through an NRI outfit.
5. This again like Sin.No. 3 above is an additional equity participatioin and not a fresh one.
6. We have aggregated the foreign equity of only those ventures for which we had data for total investment costs.
7. This is the aggregate foreign equity of all the fourteen ventures.

Source: The Economic Times and the Hindu, various issues.

The Table once again confirms the earlier finding that even during the period of liberalization, the inflows of foreign equity is very meagre in dollar terms, and on an average the foreign equity participation comes only about 19 per cent of the total project cost. This shows that there is a big gap between the proposed investment cost and the foreign equity participation which means that a substantial portion of the investments will have to be met through domestic resources. A run through the list also shows that almost the entire investment is in consumer durables and that too targeted by and large at the Indian domestic market. Under the circumstances not only that the foreign investments are insubstantial, but also that they may not lead to any substantial increase in our manufacatured exports.[31]

Under the circumstances the prospects for FDI to emerge as a significant component of private flows to India in the near future is quite doubtful though ti may show significant increases over its past trends. As the World Bank (1991) put it, "FDI cannot be viewed as a substitute for, commercial lending or official flows; (in the case of developing countries) it is at best a complement". More so in the case of India.

IV: Summing up

The purpose of the paper has been to understand the relative importance of private loans (commercial loans) vis-a-vis. Foreign Direct Investment (FDI) as a source of external capital to India. We placed the discussion of these flows against the context of such flows to developing countries as a whole.

Unlike the Latin American countries, India adopted a cautious policy of borrowing from private sources. This conservatism in borrowing underwent a radical change by the 1980s when India began to borrow heavily from private capital markets abroad. Even the loans it secured from official sources were at higher rates of interest. In fact the differential in rates of interest between official and private sources narrowed down to a great extent by the 1980s so much that even borrowing from official sources became costlier. The consequence has been an increase in the debt-creating nature of financial flows in the 1980s. In other words, the debt-creating nature of financial flows in total financial flows increased by very much in the 1980s.

In the 1990s, the government has placed much emphasis on securing substantial capital flows through FDI. We have examined various ramifications of this strategy. With the liberalization of the investment regime the inflows of FDI may increase significantly against the past trends of it. But the developments in FDI inflows world-wide does not hold much promise for India.

Notes

1. The liberalization attempts undertaken in the Philippines in the 1970s is a case in point. See for instance Datta-Chaudhuri, (1991) for a discussion of the Filipino experience in this regard.

2. Liberalization policies may be easier to initiate and sustain in authoritarian regimes as Kohli A. (1989) suggests. His paper contains an interesting resume of the liberalization attempts in India, pointing out that some times opposition to the reforms proposed by the party in power has come from unexpected quarters, namely the party's own rank and file itself.

3. See for instance Eaton (1988) and Dornbusch (1988) for recent discussions on the historical roles of public and private capital flows.

4. See Dennis, Geoffrey, E.J. (1984) for a critical review of the sources of data on international financial flows.

5. See Avramovic, D. (1958 and 1965)

6. For a detailed review of the problems with the DRS and DAC data bases, see Dennis, Geoffrey, E.J. (1984) op.cit., pp. 230-35.

7. We have relied upon the World Debt Tables, (1982-83, 1983-84, 1985-86 and 1989-90).

8. The data on India's foreign investments are culled out from the assessment of 'India's International Investment Position' conducted periodically by the Reserve Bank of India and published in its monthly bulletins. Specifically:

   (a) For the data upto 1971-72: RBI Bulletin (July), 1975, p. 422.
   (b) From 1972-75 to 1976-77: RBI Bulletin (December), 1984, p. 870.
   (c) From 1977-78 to 1979-80: RBI Bulletin (April), 1985, p. 870.
   (d) From 1985-86 to 1987-88: RBI Bulletin (April, 1991, pp. 354-417.

9. There has been atleast one recent study assessing the efficacy of foreign aid in India. See Lipton, Michael and John Toye (1990).

10. A statistical study by Mosley concluded that 'at the world level' the efficiency of aid in promoting growth in the recepient country appears to be neutral: neither significant and automatically positive, as many defenders of assume, nor negative as argued both by P.T. Bauer any by writers of the leftist persuasion. This finding by Mosley is quoted in Deepak (1990), p. 250.

11. Deepak Lal (1990), op.cit., p. 251.

12. Some governments, for instance the Mexican government used private loans for massive investment projects that hardly yielded any returns.

13. Strictly speaking, FDI and commercial loans alone need not cover the current account deficit. The identity is as follows:

amount to be financed = the mode of financing
a. amount to be financed = Current Account Deficit (CAD) + Errors and Omissions (E&O) + Accumulation of Reserves
b. the mode of financing = Net external assistance (NEA) + Use of IMF Credit (IMF) + SDR allocations (SDR) + Other Capital transfers (OCT) + Changes in reserves (AR) + NRI deposits

: CAD + E&O + AR = NEA + IMF + SDF + OCT + AR + NRI

14. See Government of India (1990-91a), p. 166.

15. Government of India (1990-91b), p. 32.

16. This is based on the following assumption. The procurement of foreign ships is both by public and private sector enterprises. In the public sector there is only on enterprise, viz., the Shipping Corporation of India, while in the private sector there are many. We have therefore assume that one half of the amount incurred in procurement of ships is by public sector enterprises and the other half by private sector shipping companies.

17. See UNCTAD (1989), p. 157.

18. UNCTC Bank (1991), p. 8.

19. Ibid, p. 9.

20. Ibid., p. 9.

21. UNIDO (1988), p. 98.

22. UNCTC (1988), p. 22.

23. UNCTC (1991a); and UNCTC (1992)

24. World Bank (1991), op.cit. p. 96.

25. UNCTC (1989), p. iii.

26. UNCTC (1991 b), pp. 15-22.

27. For a very detailed discussion on the various facets of FDI inflows to India see Mani, Sunil (1991).

28. <u>Reserve Bank of India Bulletin</u>, April 1991, p. 338.

29. The most recent RBI study of the finances of foreign controlled rupee companies operating in India, for the years 1984-85 to 1986-87 shows that dividend remittances in foreign exchange accounted for only 7.5 per cent and 6.9 per cent respectively, of the total foreign currency expenditure incurred by these companies for 1985-86 and 1986-87. So this condition of balancing dividend repulioction with total exports of these companies will be very easy for these companies to fulfill. See RBI Bulletin (August), 1991 for the details.

30. Report of the Committee on the Financial System (Chairman: M.Narasimham), Ministry of Finance, 1991.

31. This is because one of the prime determination of FDI inflows to India is the potential large domestic market that India is supposed to possess.

References

1. Avramovic, D. (1958). Debt servicing capacity and post-war growth in international indebtedness, Johns Hopkins University Press, Baltimor.

2. Avramovic, D. et.al. (1965) Economic Growth and External Debt, Johns Hopkins University Press, Baltimore.

3. Bhagwati, Jagdish, N. (1990). 'The theory of political economy economic policy and foreign investment' in Maurice Scott and Deepak Lal. Public Policy and Economic Development. Clarendon Press, Oxford, pp. 217-50.

4. Buiter, W.H. and T.N. Srinivasan (1987). 'Rewarding the profligate and punishing the prudent: some recent proposals for debt relief World Development, Vol. 15, pp. 411-17.

5. Chandra, Nirmal (1991), 'Growth of Foreign capital and its importance in Indian manufacturing', Economic and Political Weekly, Vol. XXVI, Nos. 11 & 12, pp. 679-90.

6. Datta-Chaudhuri, Mrinal. (1981)

7. Dennis, Geoffrey, E.J. (1984). International Financial Flows : A Statistical Handbook, Graham Trotman Ltd., London.

8. Dornbusch, Rudiger (1988). 'Foreign Private Capital Flows' in H. Chenery and T.N. Srinivasan (eds.) Handbook of Development Economics, Vol. II, North Holland, Amsterdam.

9. Eaton, Jonathan (1988). 'Foreign Public Capital Flows in H. Chenery and T.N. Srinivasan (eds.) Handbook of Development Economics, Vol II, North-Holland, Amsterdam.

10. Feder, G and Regev, U. (1975), 'International loans, direct foreign investment and optimal capital accumulation', Economic Record, Vol. 51, pp. 320-5.

11. Fishlow, Albert (1990). 'External borrowing and debt management' in Rudiger Dornbusch and F. Leslie C.H. Hemmers, The Open Economy, EDI Series in Economic Development, Oxford University Press, New York. pp. 187-222.

12. Fleming, A. Private Capital flows to developing countries and their determination, Staff Working Paper, No. 434, The World Bank Washington.

13. Government of India (1990-91a), Economic Survey, Ministry of Finance

14. Government of India (1990-91b). Annual Report, Ministry of Finance.

15. Government of India (1991). Report of the Committee on the Financial System (Chairman: M. Narasimham), Ministry of Finance.

16. Griffith-Jones, Stephany and Osvaldo Sunkel (1986). Debt and Development Crisis in Latin America, Clarendon Press, Oxford.

17. Kohli, Atul (1989). 'Politics of Economic Liberalization in India', The World Development, Vol. 17, No. 3, pp. 305-328.

18. Lal, Deepak (1990). 'International Capital Flows and Economic Development' in Mexico Scott and Deepak Lal. Public Policy and Economic Development, Clarendon Press, Oxford, pp. 231-273.

19. Lipton, Michael and John Toye (1990). Does Aid Work in India? Routledge, London.

20. Malhotra, R.N. (1990), 'Foreign Direct Investment in India', Reserve Bank of India Bulletin, April, pp. 257-63.

21. Mani, Sunil (1991). Barriers to entry, foreign Direct Investment and Privatisation in the Context of the New Industrial Policy Statement, 1991, Centre for Development Studies, Trivandrum (Mimeo).

22. O'Brien, R. Private Bank lending to developing countries, Oberff Working Paper, No. 482, The World Bank, Washington.

23. Reserve Bank of India (1975). 'India's International Investment Position', RBI Bulletin, (July), pp. 414-36.

24. Reserve Bank of India (1984). 'India's international investment position', RBI Bulletin, (December), pp. 865-89.

25. Reserve Bank of India (1985). 'India's international investment position', RBI Bulletin, (April), pp. 269-93.

26. Reserve Bank of India (1991). 'Census of India's Foreign Assets and Liabilities', RBI Bulletin, (April),

27. Lance, Taylor. Foreign Resource Flows and Developing Country Growth, World Institute for Development Economics Research, Helsinki, 1991.

28. UNCTAD (1989). Trade and Development Report, UN, New York

29. UNCTC (1988). The CTC Reporter, No. 26 (Autumn)

30. UNCTC (1989). Service and Development : The Role of FDI & Trade in Services, UN, New York.

31. UNCTC (1991a). Government Policies and Foreign Direct Investment, UN, New York.

32. UNCTC (1991b). The World Investment Report, UN, New York.

33. UNCTC (1992). The Determinants of Foreign Direct Investment : A Survey of the Evidence.

34. Wie, Thee Kian. (1991) 'The Surge of Asian NIC Investment into Indonesia', Bulletin of Indonesian Economic Studies, Vol. 27, No.3, pp. 55-87.

35. World Bank (1982-83, 1983-84, 1985-86 and 1989-90) World Debt Tables, Washington.

36. World Bank (1991) World Development Report, Washington.

This work is licensed under a
Creative Commons
Attribution – NonCommercial - NoDerivs 3.0 Licence.

To view a copy of the licence please see:
http://creativecommons.org/licenses/by-nc-nd/3.0/