Foreign Investment

Foreign Direct Investment

6.35 Foreign Direct Investment (FDI) inflows into developing countries continue to remain sluggish. In India, FDI inflows declined from US$ 3557 million in 1997-98 to US$ 2462 million in 1998-99. The declining trend continued in 1999-2000. Inflows during the first eight months of 1999-2000 were lower at US$ 1330 million compared to US$ 1610 million during the corresponding period in the previous year (Table 6.7).

6.36 As in the previous two years, in 1998-99, Mauritius continued to be the largest source of FDI inflows followed by the USA, though there has been substantial decline in inflows from these two sources. Inflows from Mauritius were US$ 900 million in 1997-98, which declined to US$ 590 million in 1998-99. Inflows from USA also declined from US$ 687 million in 1997-98 to US$ 453 million in 1998-99. Japan and Italy were, respectively, the third and fourth largest sources of FDI in 1998-99. Both these countries increased their investments in 1997-98 and in 1998-99. Inflows from Germany were less in 1998-99 compared to the previous year though it was the fifth largest source of FDI in that year. There was substantial decline in inflows from South Korea and Netherlands in 1998-99 compared to 1997-98. Germany, South Korea and Netherlands accounted for a decline of US$ 391.3 million in 1998-99 compared to 1997-98.

6.37 While the engineering sector continued to remain at the top of the list among the FDI recipients during the last three years, the magnitude of inflows declined over this period. The second in importance was Chemicals and Allied Products with inflows into this sector increasing by 46 per cent in 1998-99 compared to the previous year. Investment in the services sector increased from US$ 321.3 million in 1997-98 to US$ 368.5 million in 1998-99, thereby maintaining its position. Electronics and Electrical Equipment, which received maximum inflow in 1997-98 was, however, relegated to fourth position in 1998-99 due to a significant reduction in inflows.

6.38 Table 6.8 shows the trends in approvals of FDI proposals vis-à-vis inflows. There has been a steep fall in approvals in 1998 compared to 1997 (a reduction of 55.7 percent in dollar terms). However, actual inflow as a proportion of approvals improved from 21.1 percent in 1997 to 32 per cent in 1998. The decline in inflows therefore has followed from a substantial reduction in approvals.

6.39 FDI inflows into developing countries are estimated to have declined slightly from US$ 172 billion in 1997 to US$ 166 billion in 1998

TABLE 6.7
Foreign Investment Flows by Different Categories

(U.S. $ million)

								April-Nov.*	
	1992-93	**1993-94**	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1998-99**	**1999-00**
A. Direct Investment	315	586	1314	2144	2821	3557	2462	1610	1330
a. RBI automatic route	42	89	171	169	135	202	179	109	120
b. SIA/FIPB route	222	280	701	1249	1922	2754	1821	1252	867
c. NRI (40% & 100%)	51	217	442	715	639	241	62	48	48
d. Acquisition of Shares$	—	—	—	11	125	360	400	201	295
B. Portfolio Investment	244	3567	3824	2748	3312	1828	-61	-722	1341
a. FIIs #	1	1665	1503	2009	1926	979	-390	-791	831
b. Euro equities@	240	1520	2082	683	1366	645	270	15	401
c. Offshore funds & others	3	382	239	56	20	204	59	54	109
Total (A+B)	**559**	**4153**	**5138**	**4892**	**6133**	**5385**	**2401**	**888**	**2671**

Source : RBI.

*** Provisional.**

$ Relates to acquisition of shares of Indian companies by non-residents under Section 29 of FERA.

 # Represent fresh inflow/outflow of funds by FIIs.

@ Figures represent GDR amounts raised abroad by the Indian Corporates.

TABLE 6.8

Foreign Direct Investment : Actual Flows vs. Approvals

	1991	1992	1993	1994	1995	1996	1997	1998	Total (91 to 98)
Approvals									
Rs crore	739	5256	11189	13590	37489	39453	57149	28783	193648
US$ million	325	1781	3559	4332	11245	11142	15752	6975	55111
Actual Inflows									
Rs crore	351	675	1786	3009	6720	8431	12085	9116	42173
US$ million	155	233	574	958	2100	2383	3330	2230	11963
Actual Inflows as % of Approvals (In US $ terms)	47.7	13.1	16.1	22.1	18.7	21.4	21.1	32	21.7

Source : RBI

Note : The approval and actual inflows figures include NRI direct investments approved by RBI, but exclude flows under acquisition of shares of Indian companies by non-residents.

(Table 6.9). It is worrying to note that India's share in developing countries inflows declined from 1.9 per cent in 1997 to 1.4 per cent in 1998.

Portfolio investment

6.40 Fresh inflows from FIIs started declining in 1997-98 and turned into net outflows amounting to US$ 390 million in 1998-99 (Table 6.7). However, recent trends in 1999-2000 indicate a sharp reversal reflecting improving external investor sentiment as a result of, inter alia, improved global prospects. Fresh inflows amounted to US$ 831 million during April to November 1999 as against an outflow of US$ 791 million during the same period in the previous year.

6.41 Amounts raised by Indian corporates through GDRs and ADRs declined from US$ 645 million in 1997-98 to US$ 270 million in 1998-99. Depressed capital market, industrial slackness at home and adverse emerging market sentiments affected GDR prospects unfavourably last year. However, there has been a turnaround in the first half of the current financial year with large issues raised in the

TABLE 6.9

FDI by Host Region

(US $ million)

Country	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998[e]**
China	11156	27515	33787	35849	40800	44236	45460
India	233	550	973	2114	2426	3351	2258
Indonesia	1777	2004	2109	4346	6194	4673	-356
Korea, Rep. of	727	588	809	1776	2325	2844	5143
Malaysia	5183	5006	4342	4178	5078	5106	3727
Philippines	228	1238	1591	1478	1517	1222	1713
Thailand	2114	1805	1364	2068	2336	3733	6969
All developing countries including China	51108	78813	101196	106223	135343	172533	165936
Share of India in developing countries (%)	0.4	0.7	1.0	2.0	1.8	1.9	1.4

Source: World Investment Report, United Nations, 1999.

'e' : estimates.

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

ADR/GDR market. The successful ADR issues include M/s Infosys Technologies ($ 75 million), M/s Satyam Infoway Ltd. ($ 86 million) and M/s ICICI ($ 315 million). To facilitate conversion of its GDRs into American Depository Shares (ADS), ICICI listed the ADS on the New York Stock Exchange with effect from 17 November, 1999 after complying with stringent listing requirements of the Securities and Exchange Commission(SEC) of the USA, including adherence to GAAP standards.

Policies on foreign investment

6.42 Several initiatives have been taken to enhance the flow of FDI into the country. In August, a Foreign Investment Implementation Authority (FIIA) was established within the Ministry of Industry in order to ensure that approvals for foreign investments (including NRI investments) are quickly translated into actual investment inflows and that proposals fructify into projects. In particular, in cases where FIPB clearance is needed, approval time has been reduced to 30 days.

6.43 With a view to expand the FIIs category, the Government has permitted foreign corporates and high net worth individuals to invest through SEBI registered FIIs. Such investments will be subject to a sub-limit of 5 per cent within the aggregate limit for FII portfolio investments of 24 per cent in a single company. The Government has also permitted SEBI registered domestic fund managers to manage foreign funds for investment in the Indian capital market through the portfolio investment route provided the funds are channeled through internationally recognised financial institutions and subject to the reporting requirements as applicable to FIIs.

6.44 In March 1999, the RBI issued a notification granting general permission to Mutual Funds for issuing units to NRIs /PIOs/ OCBs subject to certain specified norms, thereby dispensing with the existing procedure of obtaining prior permission. In addition, approval procedures have been simplified by the RBI in respect of NRIs/PIOs/OCBs by granting them general permission in lieu of a case by case approval procedure in a large number of areas. This includes acceptance of deposits by Indian companies, investment in Air Taxi operations, sale of shares in stock exchanges, transfer of shares/bonds/ debentures and immovable property to charitable trusts/organisations in India as gift, raising of loans by resident individuals/ proprietorship concerns on non-repatriable basis, issue of Commercial Papers by Indian companies to NRIs etc.

6.45 Foreign owned Indian holding companies were hitherto required to obtain prior approval of the FIPB for downstream investment. They have now been permitted to make such investments within permissible equity limits through the automatic route provided such holding companies bring in the requisite funds from abroad. Also, the need to obtain prior approval of the FIPB for increasing foreign equity within already approved limits has been dispensed with in all cases where the original project cost was up to Rs.600 crore.

6.46 Considering the enhanced opportunities of Indian software companies for expanding globally, operational norms governing their overseas investments and mode of financing acquisition of overseas software companies have been liberalised. In December, 1999 a notification was issued by the Ministry of Finance permitting Indian software companies, which are listed in foreign exchanges and have already floated ADR/GDR issues, to acquire foreign software companies and issue ADRs/ GDRs without reference to the Government of India or the RBI up to the value limit of US$ 100 million. For acquisitions beyond US$ 100 million, proposals would require examination by a Special Composite Committee in the RBI.

6.47 With a view to further liberalise the operational guidelines for ADR/GDR issues, it has been decided to dispense with the track record scrutiny process for ADR/GDR issues and the two stage approval by the Ministry of Finance. Indian companies would henceforth be free to access the ADR/GDR markets through an automatic route without the prior approval of the Ministry of Finance subject to the specified norms and post-issue reporting requirement. As ADR/GDR are reckoned as part of FDI, such issues would need to conform to the existing FDI policy and permissible only in areas where FDI is permissible. Such ADR/

GDR issues would, however, be governed by the mandatory approval requirements under the FDI policy.

6.48 An Insurance Regulatory and Development Act(IRDA) was passed by Parliament in December, 1999. The Act , which seeks to promote private sector participation in the insurance sector permits foreign equity stake in domestic private insurance companies upto a maximum of 26 per cent of the total paid up capital.

6.49 In February 20000, Government took a major decision to place all items under the automatic route for FDI/NRI/OCB investment except for a small negative list, which includes the follwing : (i) items requiring an industrial licence under the Industries (Development and Regulation) Act, 1951; (ii) foreign investment being more than 24% in the equity capital of units manufacturing items reserved for small scale industries; (iii) all items requiring industrial licence in terms of the locational policy notified under the New Industry Policy of 1991; (iv) proposals having previous venture/tie-up in India with foreign collaborator; (v) proposals relating to acquisition of shares in existing Indian company by foreign/NRI/OCB investor; (vi) proposals falling outside notified sectoral policy/caps or under sectors in which FDI is not permitted and/or applications chosen to be submitted through FIPB rather than automatic route by the investors. This is an important step to dispense with case-by-case approval procedure and to impart greater transparency in the process of foreign investment.

6.50 Furthermore, subject to sectoral policies and sectoral caps the automatic route would be available to all foreign and NRI investors with the facility to bring in 100% FDI/NRI/OCB investment. All proposals for investment in public sector units, as also for EOU/EPZ/EHTP/STP units would qualify for automatic approval subject to the aforesaid parameters.

External Commercial Borrowing

6.51 Disbursements under ECB (including US$ 4230 million from RIBs), were US$ 7226 million in 1998-99, almost at the same level as in 1997-98 (US$ 7371 million). Subdued demand for funds from borrowers due to slackness in domestic industry and higher premia for emerging market borrowers in the international market contributed to lower disbursements excluding RIBs. However, since repayments fell from US$ 3372 million in 1997-98 to US$ 2864 million in 1998-99, net overall borrowings showed an improvement from US$ 3999 million in 1997-98 to US$ 4362 million in 1998-99.

6.52 The sluggish trend in disbursements has continued in the current year. In the first quarter of the current financial year, disbursements were US$ 621 million against US$ 754 million during the corresponding period in the previous year. Repayments at US$ 631 million were only marginally higher by US$ 9 million. Therefore, there has been net repayment in the first quarter of 1999-2000 as compared to net borrowing of US$ 132 million in the corresponding period of the previous year.

6.53 ECB guidelines in 1999-2000 were further liberalised and procedures streamlined to facilitate better access to international financial markets, keep maturities long, costs low and encourage infrastructure and export sector financing. The major changes in the guidelines in 1999-2000 are summarised in Box 6.2.

6.54 ECB approvals in 1998-99 were much lower at US$ 5200 million compared to US$ 8712 million in 1997-98. In 1999-2000 (up to end-December), approvals amounted to US$ 2136 million (Table 6.10). The Power sector accounted for the highest approvals of

TABLE 6.10

Status of ECB Approvals

(US $ million)

Sector	**1997-98**	**1998-99**	**1999-00***
Power	3014	3998	1699
Telecom	1492	75	0
Shipping	210	37	27
Civil Aviation	373	0	0
Petroleum & Natural Gas	230	40	218
Railways	179	15	0
Financial Institutions	795	150	50
Ports, Roads, etc.	61	0	80
Others (including exporters)	2358	885	62
Total	**8712**	**5200**	**2136**

*** as on 31.12.99**

Source : ECB Division, Ministry of Finance, Government of India.

US$ 1699 million followed by US$ 218 million for Petroleum and Natural Gas. The third largest recipient of approvals was Ports and Roads with US$ 80 million. There has been no approval in Telecom, Civil Aviation and Railways so far in the current financial year.

6.55 It is expected that as the domestic industrial recovery gathers pace and emerging market spreads narrow, ECB will be accessed more in the coming months. Further fillip in this regard could come from the October, 1999 Moody's revision of India's long term ratings outlook from stable to positive. Ratings by other agencies remain unchanged.

Non-Resident Deposits

6.56 All redemption payments under FCNRA were completed in 1998-99. In all other accounts, net inflows were lower in 1998-99 compared to 1997-98 (Table 6.11). The declining overall trend in rupee deposits could reflect investors' concerns regarding a possible decline in the external value of rupee in the context of an overall emerging market outlook. There was also a decline of US$ 144 million in 1998-99 in foreign currency denominated deposits of FCNR(B), which was partly on account of a shift of these flows to RIBs. In this regard, it is noteworthy that after the closure of the RIB scheme in August 1998, inflows started picking up in FCNR(B). The trend continued with a positive net inflow of US$ 503 million in this account during April-October 1999 reflecting continuing investors' preference towards foreign currency denominated assets.

6.57 In the Monetary and Credit Policy Measures announced by the RBI for the second half of 1999-2000, the minimum maturity of FCNR(B) deposits has been raised to one year from six months to minimise the country's short term external borrowing liabilities. At the same time, the requirement by banks to maintain an incremental CRR of 10 per cent on increase in liabilities over the level as on April 11, 1997 has been withdrawn.

TABLE 6.11

Outstanding Balances and Net Flows under various Non-Resident Deposit Schemes

(US$ million)

A. Outstanding Balances under Different Schemes*

Schemes	As at the end of					
	March 95	March 96	March 97	March 98	March 99	Oct. 99 (P.E.)
FCNR(A)	7051	4255	2306	1	—	—
FCNR(B)	3063	5720	7496	8467	8323	8826
NR(E)RA	4556	3916	4983	5637	6220	6530
NR(NR)RD	2486	3542	5604	6262	6758	6806
FC(B&O)D	—	—	—	—	—	—
TOTAL	**17156**	**17433**	**20389**	**20367**	**21301**	**22162**

B. Net flows under Non-Resident Deposits*

Schemes	1994-95	1995-96	1996-97	1997-98	1998-99	Apr-Oct. (P.E.) 1998-99	Apr-Oct. (P.E.) 1999-00
Foreign Currency Non-Resident (Accounts) (FCNR(A))	-2249	-2796	-1949	-2305	-1	-1	—
Foreign Currency Non-Resident(Banks) (FCNR(B))	1979	2669	1773	971	-144	-267	503
Non-Resident External Rupee Accounts (NR(E)RA)	964	-208	1244	1197	980	519	459
Non-Resident (Non Repatriable) Rupee Deposits (NR(NR)RD)	682	1279	2246	1256	941	548	209
Foreign Currency (Banks & Others) Deposits (FC(B&O)D)	-558	—	—	—	—	—	—
TOTAL	**818**	**944**	**3314**	**1119**	**1176**	**799**	**1171**

P.E. : Provisional Estimates. *** All figures are inclusive of accrued interest.**

Source : RBI.

BOX 6.2

Salient Features of External Commercial Borrowings – 1999-2000

Average maturities for ECB

ECBs should have the following minimum average maturities:

- Minimum average maturity of three years for external commercial borrowings equal to or less than USD 20 million in respect of all sectors except 100% EOUs;
- Minimum average maturity of five years for external commercial borrowings greater than USD 20 million in respect of all sectors except 100% EOUs;
- 100% Export Oriented Units (EOUs) are permitted ECB at a minimum average maturity of three years for any amount.
- Bonds and FRNs can be raised in tranches of different maturities provided the average maturity of the different tranches within the same overall approval taken together satisfies the maturity criteria prescribed in the ECB guidelines.

USD 5 million Scheme

All Corporates and Institutions are permitted to raise ECB upto USD 5 million at a minimum simple maturity of 3 years.

Exporters/Foreign Exchange Earners

Corporates earning foreign exchange are permitted to raise ECB up to thrice the average amount of annual exports during the previous three years subject to a maximum of USD 200 million. The minimum average maturity will be three years up to USD 20 million and five years for ECBs exceeding USD 20 million. 100% EOUs are permitted to have foreign currency exposure up to 60% of the project cost.

Infrastructure projects

Holding Companies/promoters will be permitted to raise ECB upto a maximum of USD 200 million to finance equity investment in a subsidiary/ joint venture company implementing infrastructure projects. This flexibility is being given in order to enable domestic investors in infrastructure projects to meet the minimum domestic equity requirements. In case the debt is to be raised by more than one promoter for a single project then the total quantum of loan by all promoters put together should not exceed USD 200 million.

Long term Borrowers

- ECB of eight years average maturity and above will be outside the ECB ceiling, although the MOF/RBI's prior approval for such borrowings will continue to be necessary. The Government will review the extent of debt under this window periodically.

On-lending by DFIs and other Financial Intermediaries

While DFIs are required to adhere to the average maturity criteria prescribed, namely, minimum of five years for loans of more than USD 20 million equivalent and minimum three years for loans less than or equal to USD 20 million for their borrowing, they are permitted to on-lend at different maturities. They may also on-lend for project-related rupee expenditure. However, other financial intermediaries are required to adhere to the general ECB guidelines on maturity as well as end-use in their on-lending programmes

Proceeds from Bonds, FRNs and Syndicated loan

Corporate borrowers who have raised ECB for import of capital goods and services through Bonds/FRN/Syndicated loans are permitted to remit funds into India. The funds can be utilised for activities as per their business judgement except investment in stock market or real estate, for up to one year or till the actual import of capital goods and services takes place, whichever is earlier. In case borrowers decide to deploy funds abroad until the approved end-use requirement arises, they can do so as per the RBI's extant guidelines. RBI would continue to monitor ECB proceeds parked abroad

ECB entitlement for new projects

All greenfield projects other than infrastructure projects will be permitted to avail ECB to the extent of 35% of the total project cost, as appraised by a recognised Financial Institution/Bank, subject to the fulfillment of other ECB guidelines.

All infrastructure projects will be permitted to have ECB exposure to the extent of 50% of the project cost as appraised by a recognised financial institution/bank, subject to fulfillment of other ECB guidelines. Greater flexibility beyond 50% of the project cost may be allowed in case of power sector and other infrastructure projects based on merits.

Pre-payment of ECB

Presently, prepayment facility is permitted subject to certain conditions if they are met out of inflow of foreign equity. In addition to this the corporates can avail of either of following options for prepayment of ECBs.

i. 10% of the outstanding ECBs once during the life of a loan

ii. All ECBs, with residual maturity up to one year.

iii. 100% prepayment is allowed where the source of funds is from Exchange Earners' Foreign Currency accounts.

Refinancing the existing foreign currency loan

Refinancing of outstanding amounts under existing loans by raising fresh loans at lower cost may also be permitted on a case-to-case basis, subject to the condition that the outstanding maturity of the original loan is maintained. Rolling over of ECB will not be permitted.

Liability Management

Corporates can undertake liability management for hedging the interest and/or exchange rate risk on their underlying foreign currency exposure.

End use Relaxation

ECBs can be used for any purpose except investment in real estate and in capital markets.

Government equity holding in PSUs

In view of on-going dis-investment programmes, borrowing by PSUs should not incorporate any covenant that Government will continue to hold at least 51% of equity in PSUs concerned.

Operating Expenses

Operating and out-of-pocket expenses incurred for ECB approvals, not resulting in loans, are allowed as per prevailing RBI guidelines on current account transactions subject to a cap.

Simplification of approval procedures

The Regional Offices of RBI would take loan agreement/documents on record of all ECB approvals once the Government/RBI has approved them.

Default interest not exceeding 2% over the applicable rate will be incorporated in the approval letter/taken on record letter itself. No further approval would be required from the Government/RBI.

Structured Obligation

In order to enable corporates to hedge exchange rate risks and raise resources domestically, domestic rupee denominated structured obligations would be permitted to be credit enhanced by international banks/international financial institutions/joint venture partners subject to certain conditions. The denomination of debt service in the post default situation may be in rupees or in forex as envisaged in the contract document.

Source : Guidelines on External Commercial Borrowings: Policies & Procedure (1999-2000), Govt. of India, New Delhi, July,1999 and Press Release of the Ministry of Finance dated 9.2.2000.

BOX 6.3

Liberalisations on Capital Account during the Current Financial Year (1.4.99 to 25.11.99)

- ADs are permitted to provide forward exchange cover to FIIs to the extent of 15 per cent of the market value of their outstanding equity investment.
- Reserve Bank of India (RBI) will consider requests from Export Houses/Trading Houses/Star Trading Houses/ Super Star Trading Houses for availing of fund based/non-fund based facilities from overseas banks for their trading offices abroad.
- Indian entities have been permitted to use Over-The-Counter (OTC) future contracts based on average prices. They have also been permitted to hedge exposures (through London Bullion Market Association approved brokers) to bullion prices arising from export commitments in the London Bullion Market besides recognised international exchanges.
- RBI has issued notification granting (a) exemption to non-resident holders to acquire underlying shares released by the Indian custodian of ADRs/GDRs upon surrender of the ADRs/GDRs, and (b) general permission to the company/depository concerned for entering an address outside India in its register of books in respect of such shares.
- The existing ceiling on investment abroad under Fast Track Route has been raised for SAARC countries and Myanmar. Ceiling on Indian Rupee investment in Nepal and Bhutan has been raised.
- RBI has issued notification extending general permission to Indian companies to issue Commercial Paper to Overseas Corporate Bodies on non-repatriation basis subject to certain conditions.
- Banks which have been permitted to accept gold under the Gold Deposit Scheme have been permitted to use exchange traded and OTC hedging products to manage their price risk.
- Reserve Bank vide its notifications has granted general permission to:
  - — non-residents to acquire shares of companies incorporated in India from other non-residents by way of sale/transfer provided the seller/transferer had acquired the shares under general/special permission of RBI.
  - — NRIs, Persons of Indian Origin (PIOs) and OCBs to acquire shares of companies incorporated in India from other NRIs/PIOs/OCBs by way of sale/transfer provided the transferer/seller had acquired the shares under general or special permission of the RBI.
  - — a person resident outside India or a company incorporated outside India which has been permitted to set up a 100% Owned Subsidiary to acquire shares from shareholders who had acquired such shares as signatories to the Memorandum and Articles of Association, subject to certain conditions.
  - — Indian companies to issue rights/bonus shares to non-residents and to send such shares out of India, and to non-residents to acquire such shares subject to certain conditions.
  - — Indian companies for issuing non-convertible debentures to NRIs/OCBs on repatriation/non-repatriation basis subject to certain conditions.
- RBI has empowered designated branches of authorised dealers to grant permission on repatriation/non-repatriation basis to NRIs/OCBs under all portfolio investment schemes to acquire shares/debentures of Indian companies and other securities. NRIs/OCBs have also been granted permission to acquire such shares/debentures of Indian companies and other securities.
- Authorised dealers have been permitted to grant loans and advances to NRI/PIOs against the security of shares/debentures/immovable property held by them in India, according to their commercial judgement subject to certain conditions.
- Authorised dealers have been permitted to allow the remittances towards prepayment/part prepayment of ECBs to the extent such prepayment has been approved by the Government of India. RBI would consider, on application, prepayment/part prepayment of ECBs approved by them.

Source : RBI

6.58 Overall, the outstanding balance under various non-resident deposits was higher at US$ 21301 million at end March 1999 compared to US$ 20367 million as at the end of March 1998. The outstanding balance further increased to US$ 22162 at the end of October 1999.

External Assistance

6.59 Gross disbursements of external assistance in 1998-99 were US$ 2936 million, almost the same level of US$ 2934 million in 1997-98. Repayments were higher at US$ 2105 million in 1998-99 compared to US$ 2028 million in 1997-98. Because of larger amortisation

BOX 6.4
Status on Sanctions

Sanctions by the USA

It was reported in the Economic Survey 1998-99 that under Nuclear Proliferation Prevention Act, 1994, which also includes the Glenn Amendment to the Arms Export Control Act, the US ordered sanctions against India on May 13, 1998. The sanction was not applicable in assistance relating to humanitarian needs, food or other agricultural commodities.

On November 6, 1998, the US President announced partial lifting of sanctions on the basis of authority given to him by the Brownback Amendment passed by the US Congress. The relaxations were offered in the operations of EXIM Bank, Trade Development Agency and OPIC. US Bank activities and Military Education and Training Programmes were resumed.

Further, on 27 October 1999, the US President waived some of the sanctions, for an indefinite period. The sanctions that are waived include :

(a) Activities and programmes of the Export-Import Bank (EXIM Bank).

(b) Activities and programmes of the Overseas Private Investment Corporation (OPIC).

(c) Assistance under the International Military Education and Training Programme (IMET).

(d) Making of any loan or providing of any credit to the Government of India by any US Bank.

(e) Assistance to the Asian Elephant Conservation Fund, the Rhinoceros and Tiger Conservation Fund, and the Indo-American Environmental Leadership programme.

(f) Any credit, credit guarantee, or other financial assistance provided by the Department of Agriculture to support the purchase of food and other agricultural commodities.

The effect of the Presidential Memorandum signed on 27 October, 1999 is that the following sanctions will remain in effect until the President exercises his waiver authority:

(a) US opposition to the extension of any loan, financial or technical assistance to India by an international financial institution (*i.e.*, World Bank, International Monetary Fund and the Asian Development Bank loans).

(b) Prohibition on the sale of defence articles, services, design and construction services, as well as the grant of export licenses for the export of items listed on the US Munitions List.

(c) Grant of foreign military financing.

(d) Prohibition on the export of specific goods and technology (i.e., dual use goods and technology).

A press release dated 16 December, 1999 from the US Department of Commerce, Bureau of Export Administration indicates removal of 51 Indian entities from the list of entities originally sanctioned in 1998. The entities removed included mainly ordnance factories and scientific research institutions. Removal of the entities will make it easier for them to obtain non-sensitive items and technology from the US.

Denmark

Decisions against any fresh aid. Further, all ongoing projects would be wound up in a phased manner so that they can be transferred to Indian authorities in three to five years. Assistance under private sector is also suspended.

Canada

Ongoing projects will continue. Future programmes will focus on environment; poverty reduction; gender equity; human rights and child labour. No support to new non-humanitarian lending. Ban on defence sales.

Position remains unchanged in respect of others.

Source: Ministry of External Affairs.

payments in 1998-99, net inflows in 1998-99 were lower at US$ 831 million in comparison to US$ 906 million in 1997-98. Gross disbursements improved in the first half of the current financial year. Disbursements were higher at US$ 1184 million during April – September 1999 compared to US$ 933 million during the corresponding period in the previous year. Repayments were also higher at US$ 1068 million in the first half of the current financial year compared to US$ 968 million during the same period last year. Thus, net assistance improved to US $116 million during April-September, 1999.

BOX 6.5
Group of Twenty (G-20)

- The Finance Ministers of the Group of Seven (G-7) countries established in September 1999, the G-20 as an international forum to promote informal dialogue and cooperation among systemically important countries within the framework of the Bretton Woods institutional system with a view to preserving international financial stability.
- An important distinguishing characteristic of the G-20 from the G-7 is its broader participation from among both the industrialised countries as well as key emerging markets, thereby representing a wider range of viewpoints.
- Members of the G-20 are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States, the European Union and the Bretton woods institutions.
- During the inaugural meeting of the G-20, held in Berlin during December 15-16, 1999, the Group deliberated on various prerequisites for a sound international financial system and highlighted the importance of the following initiatives to avert global financial crisis:
  1. Formulation of sound national economic and financial policies.
  2. Strengthening of national balance sheet.
  3. Strengthening of sovereign debt management.
  4. Greater attention to the impact of government policies on borrowing decisions of private firms.
  5. Sustainable exchange rate regime supported by consistent exchange rate and monetary policy.
  6. Widespread implementation of codes and standards including transparency, data dissemination and financial sector policy.
  7. Measures to strengthen domestic capacity, policies and institutions.
- The Group welcomed the work of the Bretton Woods Institutions and other bodies in the areas of codes and standards and agreed to undertake the completion of Reports on Observance of Standards & Codes and Financial Sector Assessments.
- The members of the Group advised their Deputies to consider existing work in other forums, and to examine further avenues to mitigate vulnerabilities to crisis.
- The Group affirmed its commitment to progress towards multilateral trade liberalisation within the WTO framework.