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India sees the value of its NRIs

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From Not Really Indians to an uncharitable epithet of Non-Reliable Indians to Internationally Respected Indians, Non-Resident Indians (NRIs) have come a long way.

Not very long ago, NRIs were considered fair-weather friends. Possibly even now. But people tend to forget that whenever it comes to investment, nobody in altruistic. Not even resident Indians. Investment decisions are driven by economic logic rather than sheer jingoism. A common refrain indicting NRIs is that while non-resident Chinese have played a major role in economic development of China, NRIs have not. While doing so, however, differing circumstances are conveniently forgotten.

An important explanation for the differing performance relates to the nature of development strategies and policies in the two countries. China's open-door policy, including liberalization of foreign direct investment (FDI), started in the late 1970s, whereas India's liberalization only started in the early 1990s, a gap of about 12 years.

China began attracting FDI initially in its Special Economic Zones as part of its coastal development policy, whereas India, while opening up the whole of the economy, retained high restrictions on sectors of entry and levels of foreign participation. There was also a significant difference in the broad aims of industrialization strategies: independent India adopted an import-substitution policy, providing high trade protection for domestic firms operating in both the private and the public sectors.

Even after the reform process started in 1991, there remained many restrictions for foreign firms wanting to operate in the Indian market. Only during the past five years has India's FDI policy become appreciably liberal.

In China, on the other hand, once opening-up started, emphasis was placed on export-oriented FDI. Although this increased FDI, especially from non-resident Chinese and from other Asian countries such as Japan, South Korea and Taiwan, it also encouraged round-tripping through funds channeled by domestic Chinese firms into Hong Kong and reinvested back in China to take advantage of special fiscal incentives given to foreign investors and/or to circumvent regulatory restrictions.

Clearly, a substantial portion of Chinese FDI is simply domestic investment masquerading as foreign investment. More important, it clearly establishes that economic logic influences investment decisions for which one might even assume extralegal means. Why then criticize NRIs?

The issue is, China has come up with a more liberal FDI environment than India's. Clearly, policies were much more conducive in China than in India. The very fact that it took India nearly 10 years after the reforms started to set up a steering committee to look into ways of increasing FDI inflows is an adequate pointer to the fact.

However, before going into the issue of physical capital, it would be in order to talk about India's intellectual capital. The very fact that Indian intellectual capital is so admired worldwide has a lot to do with the success of NRIs. Not only have Indians earned accolades for entrepreneurship, Indian doctors, scientists and engineers have enjoyed a position of eminence in the countries they have chosen to seek their fortunes in.

Nevertheless, it is their success in Silicon Valley that gave India prominence on the global map. This very success spawned the Indian information-technology (IT) industry that makes other nations envious of India and Indians. The brain drain that was so loathed at the end of the last century has paid rich dividends as the intellectual capability of Indians has grown. And not only in matters relating to information technology.

India is now one of the most preferred sources of outsourcing from low-value-added to high-value-added services, as well as products. Not only this, between 1999 and 2003, the number of patents granted by the United States Patent & Trademark Office to Indian entities increased by 210% to 338.

While the contribution of NRIs in making the world realize the potency of even India's indigenous intellectual capital is slowly being appreciated, things are changing for the better even in terms of physical capital.

Countrywide data provided by the Indian government for FDI approvals show the increasingly important role played by NRIs over the past few years.

As per available information, NRIs stood fifth on the list (with total intended investment of Rs110 billion (US$2.4 billion), a little less than that of Japan at Rs118 billion, with the US at the top with Rs581 billion) of cumulative FDI approvals for all countries in India since 1991 (when India's reforms process started) until 2003.

A subset from a group of about 20 million individuals (total estimated number of NRIs) aiming to bring more investments into India than countries such as Germany, France and the Netherlands etc can hardly be considered non-reliable. This figure is all the more creditable because it excludes large numbers of NRIs who prefer to invest in India via the Mauritius route to take advantage of a favorable tax treaty between India and Mauritius. Even if a third (a modest estimate) of the potential inflow from Mauritius is attributable to NRIs, their overall contribution to potential FDI into India would be much more enviable.

What is more heartening is that, in recent years, proposed NRI FDI in India has improved in the face of falling approvals from major investing countries. For example, while NRIs were ninth in the list in 2002, they climbed to third in 2003. And during the first quarter of 2004 (the period for which current data is available), NRIs topped the list with proposed investment of Rs3.93 billion, ahead of even Mauritius at Rs3.85 billion.

Even in terms of remittances, NRIs are a group to beat. For example, in 2001, India topped the World Bank's list of workers' remittances at $10 billion, which was more than 13% of the total $72.3 billion for all developing countries during 2001, according to a World Bank report of 2003. India was closely followed by Mexico with $9 billion, while the Philippines received $6.4 billion, Morocco $3.3 billion, Egypt $2.9 billion and Turkey $2.8 billion.

According to a report prepared by India's Department of Economic Analysis and Policy, NRI remittances at about $14.8 billion in 2002-03 were almost 3% of the country's gross domestic product. Over the years, NRI remittances have helped the country offset its merchandise trade deficit in a significant measure, thereby keeping current account deficits at a modest level through the 1990s and posting modest surpluses in 2001-02 and 2002-03. Moreover, these remittances have mirrored the lowest volatility among all categories of current receipts, after merchandise exports. Unlike capital flows, interest-rate differentials are not found to be significant in determining workers' remittances, thus underlining the stable nature of these flows.

Roll out the red carpet

India's much-liberalized FDI policies have not in the past left enough room for specific policies for NRIs vis-a-vis other non-resident investments, except for the real-estate and civil-aviation sectors, where 100% investment is allowed only to NRIs. NRIs are also permitted to make direct investments in proprietary/partnership concerns in India and also in the shares/debentures of Indian companies.

But according to the Financial Express newspaper last weekend, the first-ever union ministry for NRI affairs will create exclusive economic zones for NRIs in a major push to attract their investment, along the lines of economic zones in China.

According to the newspaper, the ministry has also decided to allow dual citizenship for NRIs.

"The government, after finalizing the plans with various state governments during the next week, will come out with a policy framework," Minister of State for Non-Resident Indians affairs Jagdish Tytler said. "We will also provide dual citizenship to NRIs in the next two months," he added.

Based on discussions with Andhra Pradesh Chief Minister Rajasekhara Reddy, it has been understood that the state will have the first NRI economic zones in the country.

The policy framework will also provide a platform for single-window clearance. Also, preference will be given to invest in NRIs' respective states, allowing investments ranging between $5,000 and $500,000 and above in different categories. "When Chinese can do proud to their country, why not Indians?" Tytler said.

NRIs are currently also permitted to make portfolio investments, ie purchase of shares/debentures of Indian companies through stock exchanges in India. These facilities are granted both on a repatriation and non-repatriation basis. NRI individuals can make investments in domestic public/private-sector mutual funds or money-market mutual funds floated by commercial banks and public/private-sector financial institutions on a non-repatriation basis.

There is also no ceiling or restriction on the amount of remittable dividends. NRIs are also allowed to keep deposits in banks in India, the salient features of which are: higher interest rates than banks abroad offer; the interest earned is non-taxable; the investment, as well as interest on these deposits, is exempt from Indian wealth tax, irrespective of the amount. And the principal and interest can easily be repatriated.

NRI vote of confidence

In a boost for the new Congress-led government, Indian business leaders working overseas are "vigorously upbeat" about the Indian economy and voice strong confidence in the ability of the government to advance economic liberalization.

A new survey by McKinsey Quarterly found that 84% of the people interviewed indicated that they were confident that the government could continue to liberalize the economy and manage economic growth effectively.

Such support, the publication said, was essential if the government was to move ahead on liberalizing trade and the rules for foreign direct investment.

The survey was conducted in May in the aftermath of the Lower House polls and the defeat of the national Democratic Alliance government.

Indian executives said they were confident not only about the government, but also about the Indian economy, with 66% expecting it to be at least moderately better in six months.

Among respondents from large companies in the region, 71% saw India as an important source of talent; globally, 58% of such executives shared that view, the survey said.

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