

Economic Development (Investment,
International Trade, Industrial
Development and Tourism)



The Indian Diaspora, 20 million strong and spread across all continents and most countries of the world, is a great potential tool for national development. It covers some of the prominent industrial powers and economic powerhouses of this millennium. The Indian Diaspora has the distinction of being the second largest diaspora in the world with a huge purchasing power, estimated at around US\$300 billion. Many members of the Indian Diaspora have risen to high ranks in their adopted lands, some even reaching the positions of Prime Ministers and Presidents. The Indian Diaspora can, therefore, play an influential role in enhancing investment, accelerating industrial development and boosting our international trade and tourism efforts. With the constant improvements in global communications and technology, India can hope to engage its Diaspora to play an increasingly significant role in accelerating global economic growth for mutual benefit.

Current Region-wise Status of Diaspora

Indian Diaspora in North America

- 29.2. The Indian American population stands at about 1.7 million as of the 2000 Census, or about 0.6% of the American population. Only the Asian communities are numerically larger. The present figure represents a 106% increase over the 1990 Census figures, or about an annual growth of 7.6% per annum. In addition there are about 0.2 million illegal Indian residents. There are also about 0.2 million Persons of Indian origin, who came as a part of secondary and tertiary migrations from Fiji and Africa etc.
- 29.3. The Indian American median family income is \$60,093 as against the national median family income of \$38, 885. The high income, reflecting the advanced educational levels achieved by the Indian community and their increasingly influential role in the local economy, have enabled Indian Americans to become a productive segment of the U. S. mainstream, with 72.3% participating in the work force.
- 29.4. Silicon Valley represents the success of Indians. 4 out of 10 startups in the region are Indian. About one-third of the engineers in Silicon Valley are of Indian descent, while 7 per cent of the Valley's high-tech firms are led by Indian CEOs. In the traditional corporate Fortune 500 setups, NRI/PIO have broken through the glass ceilings to become CEOs, Managing Directors, and

Presidents. The non-traditional areas of films have brought to the fore people who command millions and international respect. There is thus a pool of expertise in management, financial, corporate and banking sectors in the USA, which could play an important role in mutually beneficial developmental efforts.

- 29.5. There are nearly 800,000 Indian expatriates living in Canada at present. Like in America, Indo-Canadians, by and large, have an average income and educational level that is substantially higher than the average local levels. This finds a reflection in their higher earnings and better job profiles. The current estimate is that around 10% are professionals/managers or entrepreneurs, another 10% businessmen and another 30-40% are low-level office professionals and blue-collar workers.
- 29.6. More than in Canada, the Indian professionals in the US are making their mark on India's education system. Many successful individuals in the U.S., products of the elite Indian Institutes of Technology, are beginning to give back to their motherland in a big way through donations of money, time, and expertise or by getting involved in expanding educational facilities in India. Indian-Americans like Rajat Gupta, managing partner with U.S.-based consultancy McKinsey & Co., have taken the lead in setting up India's first international business school. The Indian School of Business, in Hyderabad, is affiliated with some of the top U.S. schools and will begin enrolling students next year. In the long term, such contributions that develop a new generation of brainpower will secure India's place as a global leader in technology.
- 29.7. The Indian Diaspora in North America also exercises considerable political influence. Some Indian Americans, even though numerically small, have considerable economic strength. These members maintain good linkages with the Democratic and Republican parties. The Congressional Caucus on India & Indian-Americans was founded in 1993 with the participation of both Democrat and Republican senators. Its objective is to push through the items in the Indian-American community's agenda on the Hill. It presently has over 118 members. It has been instrumental in helping to mobilise support for various anti-India legislations, and forcefully advocating India's stand at times like the Pokhran tests, and, more recently, the Kargil War. As discussed in the Chapter on America, influential individuals of Indian origin can now be found in every part of America and in every sphere of economic and scientific activity. Veteran politics watchers believe Indo-Americans enjoy a considerable advantage over other immigrants from Asia. Academics and educational heads also work as consultants to big corporations and have their own networks of high-level contacts in different spheres of economic activity. The prestigious Kellogg Business School has an Indian dean. The expertise and their willingness to share it, is an important resource for India.
- 29.8. The NRIs and PIOs in North America have achieved material success. They are now keen to engage with India meaningfully and to get involved in her developmental efforts. According to US census figures, the majority of such Indians were born outside the USA/Canada and are now in their 30s. They are at the peak of their energies and faculties. Driven by a combustible mixture

of nostalgia, guilt, altruism, ambition, and profit motive, they seek to interact with India in a meaningful way through business, philanthropy, politics, culture, and trade.

- 29.9. Most importantly, NRI/PIO possess skills, and the experience of a system, which emphasizes, speed, scale, scope, and size. This is what India needs to inculcate in its work ethos. NRIs and PIOs need to become mechanisms that allow a transfer of their skills, leveraging of contacts, attracting investments, enhancing trade, and providing networking and insights into the American and Canadian market and psyche. The advances in information technology allow the interaction to be even closer through e-mail, online forums, and rapid communication with counterpart organisations. Enhanced travel opportunities with economic direct flights and targeted communications regarding business prospects are also key inputs for this process.

Indians in the Gulf

- 29.10. NRIs in the Gulf region are Indian citizens. Due to the policies of the host government, they have only a distant possibility of acquiring citizenship in the country of their residence. This has helped to sustain their keen interest and focus on India. Though the Diaspora members do not enjoy rights and privileges of citizens, their numbers are large. As a consequence, they create a specialized demand for Indian products for their own use. They also have a demonstration effect and help to popularize Indian goods. The introduction of Basmati rice in this region is an illustration of this effect. In addition, the NRIs in this region almost wholly control the wholesale and retail trade in the region. They have a widespread network of trade contacts. They are doing extremely well financially and have surplus resources to spend. They also have a deep and very strong desire to build assets in India and bank their finances here. In the process of fulfilment of the aspirations of these NRIs, India can substantially benefit from their economic demands and through the inflow of large amounts of savings/remittances from these NRIs. India could also utilize their present networks as catalysts for boosting exports/investment efforts.

PIOs in Other Developed Countries

- 29.11. The majority of Indian immigrants to the United Kingdom hail from Punjab and Gujarat. They are, by and large, prosperous and even dominant in certain sectors of economic life such as cash and carry stores or as retailers. A significant percentage of medical doctors, and specialists are from the Indian community. The induction of more affluent and entrepreneurial Indians from East Africa has also contributed in increasing economic profile of the Indian community.
- 29.12. The Indian Diaspora in U.K. has played a major role in influencing general consumption and cuisine patterns in that country. The growing consumption of Basmati rice in the UK by the diaspora is a key driver of growth of Indian Basmati rice exports. Such consumption patterns also affect consumer behaviour among local communities. An example is the almost universal popularity of Indian curry in the UK. Indian fashion, like bangles, bindis, beads, henna for hair and hand

designs, silk embroidered and sequined clothing and handbags using Indian sari borders, handicrafts and jeans etc. have had a major influence on the taste of British consumers. The Indian movies have now a big market in the U.K. It is estimated that Indian movies account for roughly one-third of the foreign movie market, the domestic movie market and the music market.

- 29.13. Indians control over 40% of the pharmaceutical retail trade in the U.K. In services, Indian owned companies are influencing the Indian IT and Biotech exports. Many have outsourced to India. Indian travel agents, hoteliers and restaurateurs are encouraging travel to India. Their potential for the Indian community in U.K. to contribute to the enhancement of both direct and indirect trade between UK and India is undoubted and substantial.
- 29.14. The Indians in the smaller communities in Netherlands, Germany and Portugal also comprise of prosperous and forward-looking businessmen and professionals, who have evinced keen interest in investing in projects in their native states in India, as well as in availing of facilities for setting up projects in Special Economic Zones.

Communities in Other Countries

- 29.15. **East Africa (Kenya, Tanzania & Uganda)**: Indians living in East Africa have been long held in high esteem for their business acumen, enterprise, hard work and frugal lifestyles. As those countries gained independence, many Indians built up vast business empires. The PIOs are currently engaged in the field of manufacturing, trading, retailing, automobile spare parts, agriculture, and hotel and restaurant business
- 29.16. In East Africa, the Indian presence, though numerically small, has a powerful impact on the economy. The traditional communities are Gujaratis and Bohras, who control both wholesale and retail trade in Kenya and Tanzania. Even in Uganda, influential Indian families have returned and the Indian traders are back in business.
- 29.17. **Mauritius**: The Indian community in Mauritius, numbering about 700,000 comprises of persons employed in government service, farmers and agricultural workers. The influence of the Indian Diaspora is visible in the fact that India's exports to Mauritius have grown at an annual average rate of 327.6% during the 1990s.
- 29.18. **Madagascar**: The small Indian community in Madagascar mainly comprises of Bohra and Gujarati traders, who are prosperous and contributing substantially to the country's economy. There is, therefore, substantial scope for increasing our trade and commerce with Madagascar.
- 29.19. **Réunion Islands**: The Persons of Indian Origin number about 220,000, majority of whom are from Tamil Nadu and Gujarat. The community works in agricultural fields, or is engaged in business. Some of them are in politics and civil administration as well. However, the importance of the country lies in its being an overseas French territory. Any economic cooperation with Reunion Island would have spin-offs in terms of closer cooperation with the EU.

- 29.20. **Malaysia:** Indians form about 7% of the total population and number about 1.6 million. The exports from India to Malaysia have grown at an annual average rate of 28% during the 1990s. The Indians in Kuala Lumpur and the surrounding region have made significant contribution to the economic life of Malaysia. They have a strong presence in the construction industry. Malaysia also has an extensive network of Indian trained doctors and engineers, who can open up entry for our engineering, pharmaceuticals and medical equipment exports.
- 29.21. **Singapore:** The community numbers around 220,000, with about 64% being of Tamil origin. An indication of upward mobility among Indians till the mid-eighties was the increase in the proportion of the community employed in professional, administrative and managerial sectors, and the corresponding decrease in the traditional sectors such as agricultural labour, transport and public works. Some people of Indian origin prominent in Singaporean politics and government today include the new President, Mr. S.R. Nathan, the Minister of Foreign Affairs and Law, Professor S. Jayakumar, the Opposition leader, Mr. J.B. Jeyaretnam and Mr. S. Dhanabalan, Chairman of DBS Bank and of Temasek Holdings, who had earlier been Minister for Foreign Affairs and for Trade and Industry.
- 29.22. The second PIO Entrepreneurs' Conference was held in Singapore and the Indian Chamber of Commerce is also very active. The Singapore Government actively encourages the involvement of the Diaspora in enhancing trade and economic cooperation with India.
- 29.23. **Australia:** The Indian community, numbering about 140,000, includes a number of persons working in high technology areas. IT manpower export from India to Australia has already started and a large number of Indian students are pursuing advanced courses in Australia. There is considerable scope for cooperation with Australia in the field of Information Technology and other knowledge based industries.
- 29.24. **South Africa:** South Africa is a dynamic economy and can play a catalytic role in promoting trade with other countries in the region. The Indian community, numbering over 1 million and comprising about 2.5% of South Africa's population, is now highly urbanised. It includes successful businessmen, senior politicians (including Ministers), professionals, civil servants, academics and corporate managers. The community is politically active and economically upwardly mobile. It has an impressive share in the retail and manufacturing sector of industry. There are a number of textile companies owned by persons of Indian origin.
- 29.25. It is expected that with democratization of the political system, Indians would enjoy even better status and financial stability. The Indian Diaspora possesses traditional entrepreneurial skills and high levels of education. The whites at present have a monopolistic stranglehold on the economy. But the ushering in of democracy is expected to bring in an economic redistribution of power and Indians, with their skills and education levels, are the most likely beneficiaries. Those NRIs and PIOs would be even better positioned to increase mutually beneficially interactions with India.

Recommendations

Diaspora and Direct Trade:

- 29.26. The Committee observed that the Diaspora creates demand by specialized consumption. The Indian community, particularly business executives/professionals, whose opinions are sought and respected in their adopted country, have often helped introduce new Indian products and companies to make a breakthrough in those markets. It also impacts the local market trends by a demonstration effect and encourages the use of the product and of the brand name amongst the local populace. This is well illustrated by the introduction of Alphonso Mango and its subsequent popularity in U.K. In addition, members of the Indian Diaspora in most countries are well entrenched into the wholesale and retail sale markets and have widespread networks of contacts. The Committee is of the view that this is also applicable to the hospitality sector.
- 29.27. In the US, Indian textiles/fashion designers are well known to mainstream Americans, thanks primarily to the interests and needs of the Indian Diaspora. They can play a significant part in introducing and promoting Indian herbal cosmetics, products and jewellery.
- 29.28. The Committee observed that overseas Indians also create the market for our entertainment industry. Indian music and film and TV serial videos are gaining wider popularity throughout the diasporic Indian communities. Indian films are now being shown in major cinema halls in other countries. The commercial success of Indian films abroad also indirectly helps promote Indian fashion and products. Indian filmmakers are now producing some films with an eye on NRI/PIO audiences. Stage shows by Indian film artists and cultural troupes have popularized India's culture. They have contributed, directly as well as indirectly, to the popularity of Indian products, cuisine, costumes and traditions. The Committee, therefore, recommends that India should also encourage a closer interaction between NRI filmmakers and their Bollywood counterparts. Such interfacing could have major spin-off benefits for other sectors of the film industry.
- 29.29. The Committee also recommends that there is need for the creation of adequate awareness in the Indian Diaspora about the strengths of the Indian economy. There is a particular requirement to familiarize them about the expertise that exists in India for manufacturing diverse range of products, the vast resource pool of professionals and the strong service sector. Due to the diversity of the Indian Diaspora and the countries of their adoption, it is crucial to have a country-specific approach with sufficient emphasis on identification of potential products and markets.
- a) **Gems and Jewellery:** The Committee studied certain specific sectors of traditional exports. It noted that Indian diaspora has traditionally had a very strong presence in the Gems and Jewellery business. The Gujaratis in Antwerp control the diamond trade. Indians dominate the Gold and Jewellery market in Dubai. But so far, this has been confined basically to trading in raw or semi-finished stones, precious stones and Indian style jewellery. The Committee is of the view that there is vast scope for increasing the Diaspora's share in this

market, by encouraging them to move into the market for finished western or European style jewellery.

- b) **Indian art:** The Committee observed that Indian art is acquiring a high profile and high-value image on the international art scene. The interest of the Indian diaspora in its own art heritage has also helped change the focus of big art auction firms like Christie's and Sotheby's. These are now taking greater commercial interest in Indian art. This trend needs to be systematically nurtured and supported.
- c) **Brand equity creation:** The Committee noted that there is immense potential in involving the Diaspora in developing and popularizing brand image recognition of Indian goods in selected commodities like leather garments.

Diaspora and Indirect Trade:

29.30. **Strategy to enter/penetrate markets:** The Committee feels that so far, we have not fully availed ourselves of the full fund of good will for India and expertise that exists in the Indian Diaspora. These could easily and cost-effectively, be translated into concrete benefits for India's trade efforts. Indian professionals and businessmen can provide useful insights in the market penetration strategies. They can also provide up-to-date information about local rules and regulations, foreign government and business procedures etc. In addition, they can also use their own contacts and networking to help open up the doors for new products, services and exports from India. Some members of the Indian Diaspora are amongst the top consultants of business strategy in the same countries. Such PIOs can facilitate access by our businessmen to decision-making levels and top management. They can give useful guidance to our trade and investment initiatives. They could also help in increasing our share of outsourced products by large multinational corporations such as IBM, G.E., Caterpillar, and General Motors etc. Visits to India of such top professionals can easily be utilized as occasions for sharing their expertise at nominal cost, by involving CII, FICCI and other such organisations. The Committee also noted that many NRIs/PIOs have acquired considerable expertise in the area of negotiating franchises. These groups can help India in developing expertise in negotiating franchise agreements with other chains, and help Indian companies in getting favourable terms and conditions.

Diaspora and Investment:

29.31. The Committee noted that while there may be different perceptions about foreign direct investment in certain sectors, or by certain countries, there is a general consensus in the country that investment by Non-Resident Indians and Persons of Indian origin is desirable, as they are our own kith and kin. The NRI entrepreneurs who own and manage companies like Zee Television and Jet Airways are good examples of what can be achieved through investment by overseas Indians.

NRI Investment: Level and Pattern

- 29.32. The Committee examined the extent of foreign direct investment (FDI) made by NRIs and PIOs into India. It learnt that the total cumulative Foreign Direct Investment approved by the Government since 1991 is nearly Rs. 233,657 crore and the actual inflows add up to Rs. 82708 crores. Out of 17919 approvals during 1991-2000, there were 6486 technical approvals and 11433 financial approvals. The levels of NRI investment, approvals and inflows are separately tabulated. The table shows that during 1991-2001, the amount of NRI approvals by SIA/FIPB was Rs. 9799.29 crores. The amount of inflows representing both amount of inflows of NRI proposals approved by SIA/FIPB and amount of inflows on account of NRI schemes sponsored by the RBI is Rs.8788.57 crores. The NRIs share is 3.78 % in total FDI approved compared to 9.15 % as NRIs inflows in total inflows of FDI.
- 29.33. The Committee noted that according to the figures available, the actual inflow has been around 37% of the total amount of FDI approvals. The Confederation of Indian Industry (CII) informed the Committee that the actual total NRI inflow was nearly 48% of the approvals during 1991, the first year of the economic reforms, but the percentage declined considerably in the subsequent period. The CII ascribed this as being due to a lack of clarity in our policies.

Table 29.1: NRI investment approvals & inflows

Year Wise (Jan. to Dec.)	Amount of NRI investment approved by SIA/FIPB		Conversion rate applied	*Amount of Inflows/ schemes of RBI	
	Rupees in crores			Rupees in crore	US \$ in million
1991	19.70	08.05	24.47	160.25	65.49
1992	439.13	167.80	26.17	149.69	57.20
1993	1043.32	340.40	30.65	578.02	188.59
1994	490.88	156.48	31.37	1194.54	380.79
1995	709.71	226.02	31.40	2089.61	665.48
1996	2190.70	637.02	34.39	2280.21	663.04
1997	1817.18	506.60	35.87	1105.46	308.19
1998	750.34	189.96	39.50	389.15	98.52
1999	454.81	108.29	42.00	359.18	85.52
2000	1618.64	376.43	43.00	349.61	81.30
2001 (Jan-May)	264.88	58.86	45.00	132.85	29.52
Total (1991-2001)	9799.29	2775.91		8788.57	2623.64

Note: * Amount of inflows representing both amount of inflows of NRI proposal approved by SIA/FIPB and amount of inflows on account of NRI schemes sponsored by RBI

- 29.34. The Committee noted that the reasons assigned for the low percentage of actual inflow of FDI are generally related to lack of clarity in our policies, procedural delays and red tape, which tend to discourage many potential investors. Specific steps need to be taken to remedy the situation and to remove the procedural hassles and harmonize policies at the central and state levels.
- 29.35. The Committee also observed that the approvals of FDI are far greater than the actual inflow of FDI to India. Other than a few countries like Bahrain, Mauritius, Singapore, UK and USA, actual inflow as a percentage of approved FDI is rather small. The Committee feels that the engagement of members of the Indian diaspora can be a cost-effective method of reversing this trend.
- 29.36. The Committee noted that recent liberalization measures of the Government Of India's policies, as, for example, allowing 100% FDI in a number of sectors including pharmaceuticals, airports, transport systems, hotels, tourism, further liberalization of the FDI norms for telecom, banking and opening up of the defence production to the private sector, have been very welcomed by the NRIs and PIOs. The Committee further observed that there is a continuing need for transparency in our rules and procedures governing FDI and a further simplification of requirements to increase the actualization of FDI.
- 29.37. The Committee further observed that NRIs/PIOs find it difficult to understand why they are not treated on par with other foreign investors. One common instance of this, which was brought to the notice of the Committee, is the disparity in the rules governing stock market operations. FIIs are free to operate in Indian stock markets, without requiring any permission of RBI on currency movements. NRIs on the other hand, though free to operate in the stock markets, are subject to the non-repatriation policy of the RBI. The Committee is of the view that a review of the rules to redress such questionable disparities and reduce bureaucratic control is a priority. The Committee also recommends that the Diaspora should be allowed to invest in the areas of storage, distribution and processing units under the agricultural sector, which is currently completely closed to foreign investment.
- 29.38. The Committee is further of the opinion that the implementation of the general recommendations detailed below can increase diasporic investments:
- i. Investment guidance needs to be provided to the Diaspora. Missions/Posts abroad should organize regular meetings with the Diaspora and brief them about the changing industrial policies of the Government of India.
 - ii. Organisations like the FICCI, CII and ASSOCHAM in coordination with Ministries of Industry and External Affairs should organize more of "Made in India" exhibitions to showcase the Indian industry and encourage NRIs/PIOs to invest in India.
 - iii. The three business organisations, FICCI, CII, and ASSOCHAM should set up a specific committee and a special cell within their respective organisations for promoting business with the Indian Diaspora, along the lines of Indo-US Business Council.

- iv. A dedicated one-window setup should be set up which would provide consultancy services for overseas Indian investors and be a liaison point for getting various clearances. The NRIs/PIOs face many procedural problems in identifying suitable projects, marrying a project with a suitable location and comprehending the rules and regulations in obtaining official clearances. Consultancy services may be rendered through special cells created in select Indian embassies.
- v. Government should set up Special Economic Zones, exclusively for projects to be set up by NRIs/PIOs. To begin with, these SEZs could be set up in Kerala, Gujarat, Andhra Pradesh, Karnataka, Punjab and Uttar Pradesh. The Committee recommends these states as these states have contributed substantially to the Diaspora and hence, could also attract their investment taking advantage of their emotional bonding with their home states.
- vi. The top-level Indian professionals/business managers from various countries visit India on private or family affairs at least once every two years. The Indian missions abroad, MEA and the NRI/PIO Cells in trade organisations should keep track of such visits. During these sojourns, we can organise some events with a little advance planning, during which their expertise can be shared with interested Indian businessmen/industrialists/entrepreneurs through talks/workshops etc.
- vii. Similarly, during their private visits to India, the members of overseas Indian Associations/Chambers/business forums should be invited for intensive interaction with trade and investment promotion bodies in India.

NRIs and Remittances

29.39. The Committee examined NRI remittances both inward and outward, and under capital and current accounts. The Committee noted that investment under various schemes including project investment, investment in housing and real estate, immovable properties, etc. and repatriation of such proceeds come under the category of capital accounts. Remittances to families, institutions, gifts, etc. and repatriation of dividends, profits, interests come under the current accounts category.

29.40. Inflows from NRIs take place in the following three major forms:

- A. Private transfers
- B. Direct and Portfolio Investment
- C. Deposits

A) Private Transfers:

29.41. These include remittances as well as gifts. Major portion of private transfers is remittances to families and repatriation of savings abroad. Gifts and donations to relatives and charitable institutions in India are other forms of private transfers. Import of gold and silver by NRIs and

PIOs is another component of private transfers. The Committee looked into a Reserve Bank of India study, covering the period 1975 to 2000. This shows that remittances amounted to US \$ 97 billion (excluding gold and silver brought in by returning Indians). Gold and silver brought in by returning Indians amounted to US \$ 12.4 billion between 1992-93 (the inception of the scheme) and 1999-2000.

PRIVATE TRANSFERS**(January 2001)**

	(Rs. Crores)			(US \$ mn)		
	1997-98	1998-99	1999-00	1997-98	1998-99	1999-00
A. Receipts Inward remittance from Indian workers abroad for family maintenance etc.	19303	32253	32192	5232	7661	7423
Local withdrawals/redemptions of non-resident deposits	12773	7808	17849	3418	1859	4120
Gold and silver brought as passenger baggage	9900	705	57	2699	171	13
Personal gifts/donations to charitable/ religious institutions in India	1954	2728	3182	526	650	734
Total - A	43930	43494	53280	11875	10341	12290
B. Payments Remittance by foreign workers for family maintenance etc.	153	219	125	42	53	28
Personal gifts/donations to charitable/ religious institutions in India	12	33	23	3	8	6
Total - B	165	252	148	45	61	34
PRIVATE TRANSFERS NET(A-B)	43765	43242	53132	11830	10280	12256

B) Direct and Portfolio Investment

a) Direct Investment:

- 29.42. The committee noted that progressive liberalisation of foreign direct investment (FDI) policy has narrowed the differences between facilities available for NRI investment and foreign direct investment. With the liberalisation in FDI policy announced in February, 2000, policy for investment by NRIs/OCBs has been made uniform with that for other foreign direct investments, except in civil aviation, banking, housing and real estate development. Further liberalisation in FDI policy announced in May, 2001, make policy for investments in banking sector uniform for NRIs and other foreign investors. Development of integrated townships including housing, commercial premises, etc. has also been opened up for other foreign investors.
- 29.43. The actual inflows from NRIs/OCBs by way of FDI (automatic route of RBI) which were US \$ 442 million in 1994-95, US\$ 715 million in 1995-96 and US \$ 639 million in 1996-97 have come down to US \$ 62 million in 1998-99 and US \$ 84 million in 1999-2000. The primary reason for this decline could be the progressive reduction in the gap between special facilities available for NRIs/OCBs vis-à-vis other FDI. The reporting mechanism of the Banks also does not attempt to capture the data separately for NRI investment.

b) Portfolio Investment:

- 29.44. The Committee was informed that NRIs/OCBs are permitted to invest up to 5% individually and 10% collectively in the domestic capital market in the form of equity as well as debentures. The 10% ceiling can be raised to 24% through a special resolution passed by the General Body of the concerned company.

c) Term Deposits:

- 29.45. The Committee also learnt that the following types of bank accounts could be opened in India by NRIs, PIOs and OCBs:
- (i) Non-Resident External Rupee Accounts-NRE Accounts.
 - (ii) Foreign Currency Non-Resident Bank Accounts-FCNR (B) Accounts.
 - (iii) Non-Resident Ordinary Rupee Accounts-NRO Accounts.
 - (iv) Non-Resident Non-Repatriable Deposit Scheme-NRNR Accounts.
 - (v) Non-Resident Special Rupee Account-NRSR Accounts.
- 29.46. In all of the above, there is a requirement of obtaining prior approval from RBI for persons/entities from Bangladesh and Pakistan.
- 29.47. According to Reserve Bank of India, cumulative flow in NRI deposits between April 1975 and May 2000 amounted to US \$ 23 billion.

Inflows in the Bond Schemes

- 29.48. The Committee learnt that the response of the NRIs to the recent Bond Schemes has been overwhelming. The Resurgent India Bonds (RIB) floated in 1998 and the India Millennium Deposits (IMD) floated in 2000 resulted in the mobilisation of about US \$ 4.2 Billion and US \$ 5.51 Billion respectively.
- 29.49. The Committee also examined the methods of attracting diasporic investments adopted by other countries. In the light of their conclusions, the Committee recommends that Government should consider issuing special infrastructure bonds for NRIs/PIOs on the lines of the Israel Bonds. The rate of interest could be pegged close to the FCNR rate. The bonds could be in different denominations and with different maturity periods. Several attractive features of the Israel Bonds Scheme could be usefully adopted. For instance, Israel bonds are not even restricted to people of Jewish origin. They can be purchased in denominations as low as US \$ 250. They are freely transferable. Some of them can be cashed in Israel after one year, or used for the purchase of tickets on Israel's flagship airline, EL AL. Most of them can be gifted to one's immediate family members, or donated to charitable institutions.

d) Other Investments:

- 29.50. The Committee was told that in housing, real estate, travel and communication sectors, the NRI investment has shown a decline.

(i) Housing and Real Estate Development:

- 29.51. This scheme attracted investments amounting to Rs. 829.9 million in 1995-96, Rs. 1162.2 million in 1996-97, Rs. 2213.5 million in 1997-98 and Rs. 276.5 million in 1999-2000. The reasons for progressive decline in NRI investment in the sector could be the approach of State Governments to NRI investment in this sector, the Urban Land Ceiling Regulation Act (ULCRA) which has since been repealed.

(ii) Air-Taxi Scheme:

- 29.52. This scheme has attracted NRI investment of Rs. 313.4 million in the period 1996-97. Although NRI investment up to 100% is allowed under this scheme, the stipulation that "direct or indirect participation by foreign airlines is not allowed" acts as an obstacle in attracting investments in this sector".

Special Facilities for Investment available to NRIs

- 29.53. The Committee noted that there are special facilities for investment by NRIs vis-à-vis those available to other foreign investors as detailed below:
- 29.54. But the Committee also observed that there are major irritants still extant in the actualization of these policies. These were examined under different heads.

Facilities available to NRIs vis-à-vis those available to other foreign investors

Sl.No.	Sector	Policy for NRI Investment	Policy for other Foreign Investments
1.	Direct investment		
a.	Housing and Real Estate Development	<p>Up to 100% investment by NRIs/PIOs/OCBs is permitted with approval from FIPB in the following sectors:</p> <p>a. Development of serviced plots and construction of residential premises.</p> <p>b. Investment in real estate covering construction of residential and commercial premises including business centres and offices.</p> <p>c. Development of townships.</p> <p>d. City and regional level urban infrastructure facilities including both roads and bridges.</p> <p>e. Investment in manufacture of building materials.</p> <p>f. Investment in participatory ventures in (a) to (e) above.</p> <p>g. Investment in housing finance institutions.</p>	<p>Investment up to 100% permitted with approval from FIPB in the following sectors:</p> <p>Development of integrated townships including housing commercial premises.</p> <p>City and regional level urban infrastructure facilities, such as roads and bridges.</p> <p>Manufacture of building materials</p>
b.	Civil Aviation - Airlines	<p>Investment by NRIs/PIOs/OCBs up to 100% permitted with FIPB approval.</p> <p>Direct or indirect participation by foreign air-lines not allowed.</p>	<p>Investment up to 40% permitted with FIPB approval.</p> <p>Direct or indirect participation by foreign air-lines not allowed.</p>
c.	Investments on Repatriation basis	All investments in Foreign Exchange are fully repatriable.	Not relevant since all investments are repatriable.

Sl.No.	Sector	Policy for NRI Investment	Policy for other Foreign Investments
2.	Investment on non-repatriation basis	NRIs/PIOs/OCBs are permitted to invest on non-repatriation basis in companies. NRIs/PIOs are permitted to invest on non-repatriation basis in firms and proprietorship concerns.	Investment on non-repatriation basis is not permitted.
3.	Portfolio investment	Up to 5% in one company by individual NRI/PIO/OCB. Up to 10% aggregate in one company by NRIs/PIOs/OCBs. The limit of 10% can be raised to 24% through a special resolution by the General Body of the company.	10% by individual foreign institutional investor.Up to 24% aggregate by foreign institutional investors in one company. The limit of 24% can be raised to the sectoral cap/statutory ceiling, as applicable, by a special resolution by the Board of Directors followed by a special resolution by the General Body of the company.
4.	Bank Accounts	NRIs/PIOs/OCBs are permitted to open the following bank accounts in India: Non-Resident External Rupee Account – NRE Accounts Foreign Currency Non-Resident Bank Accounts- FCNR(B) Accounts Non-Resident Ordinary Rupee Accounts –NRO Accounts Non-Resident Non-Repatriable Deposit Scheme – NRNR Accounts Non-Resident Special Rupee Account – NRSR Account(only by NRIs/PIOs)	Other Foreigners can open only: NRO Accounts NRNR Accounts
5.	Aquisition of immovable property	NRIs/PIOs can acquire immovable property in India (other than agricultural/ plantation/farm houses).	Others are permitted to acquire immovable property which is necessary or incidental to carrying on the business in India.

Sl.No.	Sector	Policy for NRI Investment	Policy for other Foreign Investments
6.	Import of gold/silver	NRIs/PIOs can bring up to 10 kgs. of gold and 100 kgs. of silver as part of their baggage once in six months subject to payment of nominal duty.	Not permitted.
7.	PIO card scheme	PIOs holding PIO cards are allowed visa free entry into country for a period up to 20 years.	No such scheme is available.

1. Foreign Contribution Regulation Act:

29.55. The Committee learnt that NRIs and PIOs face major irritants in the actualization of the FCRA. This has been fully examined under the chapter on Philanthropy.

2. Problems in Remittances to Families:

29.56. The Committee was told that major banks have urgent remittance services like speed cash, tele-money etc. in major cities/towns where remittances are received by the recipient within 24 to 48 hours. The problem is in rural and remote areas where these facilities do not exist. The normal remittance channel of remittance is through cheques. Clearances take weeks to months, which affect the recipient families, especially those belonging to unskilled/semi-skilled workers etc. The Committee noted that Rupee drawing arrangements have been made with exchange centres in the Gulf region. By this arrangement, NRIs can remit equivalent amount in rupees to their relatives in India. The Committee feels that similar arrangements need to be replicated in other countries also.

29.57. The Committee also heard that the large gap in the bank buying and selling of currency was a factor in deciding method of remittances. The Committee recommends that gap between the buying and selling rates should be narrowed.

3. Bank Deposits:

29.58. The Committee was informed that NRIs are allowed to open and maintain different types of bank accounts like NRE accounts, FCNR(B) accounts, NRO Accounts, NRNR accounts and NRSR accounts.

29.59. The Committee observed that the major problem is on account of frauds committed on the deposits. In many instances, fraudulent loans are taken from the accounts of the NRIs by forging their signatures, sometimes with the connivance of bank employees. When such matters come to the

notice of the banks, the general tendency is to avoid taking responsibility and passing on the blame to the depositor. Recourse to legal remedy is lengthy, costly and time-consuming.

- 29.60. The Committee observed that the Reserve Bank of India had issued various communications to our banks addressing these problems.
- 29.61. The Committee recommends that banks while granting loans against NRI deposits should enforce strict vigilance. In case fraud comes to the notice, they should be quick in fixing the responsibility instead of trying to pass on the responsibility. Revamping our legal system so that fraud cases especially those involving investments/deposits by NRIs are tried speedily is also a pressing need. The instructions of the Reserve Bank of India in this regard, should be strictly adhered to by all branches of the commercial banks in letter as well as in spirit.
- 29.62. The Committee notes that the concept of using middlemen/agents to attract investments/remittances was initiated at a time when the country faced acute shortage of foreign exchange reserves. Today, we have comfortable foreign exchange reserves. To avoid any further damage to our image, the Committee recommends that NRI deposits should be made directly by the NRIs concerned either in person, through bank transfers or through post/courier. No deposit should be accepted through agents/middlemen. The safeguards initiated by RBI while opening the deposit accounts as well as while granting loans and advances against such deposits should be strictly enforced and monitored.

4. Investments in Shares/Debentures, etc.:

- 29.63. The Committee notes that NRIs also have grievances regarding their investments in shares and debentures. These basically revolve around delays and procedural lapses. The Committee notes that a procedure for redressal is already in place. This should be given wide publicity through web sites and through our Missions and Posts. Efforts to reduce time lag in the redressal process itself should be made. The committee recommends that there should be only one single agency to deal with all complaints relating to issue of shares and this agency should be fully empowered to solve the complaint without referring to any other agency. The Committee notes that at present SEBI does not even entertain complaints regarding non-listed companies.
- 29.64. The Committee also felt that extending fiscal incentives, such as reducing corporate tax rates to levels at or below competitive international levels, removing restrictions on repatriation of profits and eliminating needless licensing requirements would be extremely useful in attracting investment.

Diaspora and Tourism

- 29.65. The Committee feels that the Diaspora can make significant contribution to growth of tourism in India. The PIOs make frequent visits to their home state or visiting relatives. The committee

notes that in the US, the people of Gujarat have acquired a reputation for establishment of motels and budget priced hotels. The Committee recommends that suitable schemes should be devised to attract them into setting up establishments with similar facilities in India. Indian-origin travel agents can be motivated to promote tourism to India in a big way. An annual convention of such tour operators and travel agents could be organised in India and dovetailed into a larger programme of diaspora-focused events, centred around the Pravasi Bharatiya Divas, discussed in detail in Chapter 25.

- 29.66. The Committee also observes that a pressing need in this context is tourism publicity. Cost effective publicity can be made through display of Indian tourism posters and publicity materials in motels spread across America and run by members of the Asian American Hotel Owners Association. Video presentations on Indian tourism in the lobbies and public areas of such hotels/motels would be another useful and low-expense proposition.
- 29.67. The Committee also recommends that there should be greater focus on promoting tourism among the second generation PIOs. Special tour packages, pilgrim packages and packages tailor-made for this group of Diaspora need to be developed and publicized. Increasing of air seats capacity, bringing down airfares and improving service on our national carrier, rationalizing entrance fees to ASI monuments are some of the other steps for immediate implantation.
- 29.68. The Committee also recommends that the Government may consider issuing an India Credit Card, which could be made available to the Diaspora through Indian banks abroad. The transactions made through the Credit card could be linked to some national projects, and a token sum (as small as \$ 1) could go to this project for every purchase/transaction. This would encourage Diaspora's participation in and identification with India's economy.
- 29.69. With the opening up of the Indian economy in 1991, India's economic regime has undergone a sea change. The WTO and the new Intellectual Property Rights regime has helped open up all major economies of the world. The Committee is strongly of the view that now is the time to involve the Indian Diaspora, in multifarious ways, in the economic rejuvenation of India and revive their sense of belonging with India.

○