4. Foreign Investment Barriers

Equity Restrictions - Automatic approval is now given by the Reserve Bank of India (RBI) for foreign direct investments of up to 51 percent equity in 36 priority industries. However, case-by-case approval is required for non-priority sectors and foreign equity investment above 51 percent. There remain six industries reserved to the public sector and another 15 which require industrial licensing.

Remittance of Funds - Once an investment or technology transfer has been approved, foreign exchange outflows (dividends, interest, etc.) can normally be freely remitted. However, for consumer goods all remittances must be balanced by foreign exchange earnings.

Repatriation of Capital - Disinvestment of foreign equity must be approved by the RBI and is based on the stock exchange. For listed companies, the disinvestment price is based on the 2 year average share price as per stock exchange quotes. For shares not listed and traded on a stock exchange and closely held firms, the value is assessed by the RBI based on net asset value and earnings per share. Although there are few restrictions in theory, the repatriation process can prove to be long and arduous.

Foreign Funds Ceiling - In May 1994, the government imposed a ceiling of US$2.5 billion on the amount Indian companies can raise from international markets as Global Depository Receipts (GDRs) every year. These monies can only be used for specified purposes such as importing capital equipment and repaying outstanding foreign currency loans. This ceiling could hamper the availability of foreign funds in India. Given that, there are 130 Indian firms expecting to raise over US$9.0 billion in the next year. Since the government's failure to float their US$1.2 billion VSNL issue in May 1994, up to US$600 million has been raised by several firms. By mid 1994 twelve had been given permission to go to market.

5. Export Subsidies

The first reform Budget in 1991 phased out most direct export subsidies. However, indirect subsidies such as investment tax, credit access and foreign exchange retention incentives remain in place.

VI. Financing

There are shortcomings in existing financing mechanisms for Canadian companies doing business in India. Financing concerns range from small and medium-sized enterprises' requirements for accounts receivable credit to the risks faced by multi-national corporations making billion dollar commitments.