CHAPTER 1

INTRODUCTION
Any disequilibrium in Balance of Payment, either deficit or surplus, when it persists, is certainly undesirable due to its disastrous effects on country's economy. The deficit in Balance of Payment or adverse terms of trade is a chronic problem faced by Indian economy. The Government of India attempts to correct deficit in Balance of Payment by Monetary and Non-monetary measures. The Monetary measures include 1) Deflation 2) Exchange Depreciation 3) Devaluation 4) Exchange Control. The Researcher has concentrated on "Exchange Control" aspect which sets out rules and regulations governing inflows and outflows of foreign exchange and "Non-Resident Accounts".

The funds held in Non-Resident external account and the investments made by Non-Resident Indians and Overseas Corporate Bodies are considered to provide valuable support to India's Balance of Payment and Economic development. As a sub-category of "Non-Resident External Account" the "Foreign Currency Non-Resident Scheme" (FCNR Scheme) is one of the tools of exchange control with the help of which Government tries to influence Balance of Payment position. In other words, Government of India through Reserve Bank of India's exchange control department has been running this scheme since year 1975, the Foreign-Exchange mobilised through this scheme is in turn utilised to tide over adverse Balance of Payment. The Researcher, in the research work undertaken, examines precisely this aspect of mobilisation of foreign-exchange resources through "Foreign
Currency Non-Resident scheme" with reference to India's Balance of Payment, since year 1975 to 1991. The Researcher's endeavour is to assess success of Government in overcoming problem of scarce foreign exchange by tapping this source from "Non-Resident Indians" under "Foreign Currency Non-Resident deposit scheme." In short, the problem under consideration is to analyse impact of Foreign Currency Non-Resident scheme since its inception on India's Balance of Payment for more over a decade and probe further in the direction of finding out ways and means for more positive impact and meaningful results.

1.2 THE OBJECTIVE OF STUDY :-

The very aim of research is to make a critical study of the scheme since its inception i.e. from the year 1975 to 1991 with a view to assess its influence on Balance of Payment. In the process, an attempt has been made by the Researcher to modify the scheme so as to evoke more response from "Non-Resident Indians" thereby enhancing flow of exchange, which would ultimately benefit Balance of Payment position of the country. Thus objective of research is mainly two fold.

1] To evaluate critically Foreign Currency Non-Resident scheme with reference to its contribution in correcting disequilibrium (reducing deficit) in Balance of Payment.

2] To suggest suitable modification in the scheme so as to make it more attractive and its impact on Balance of Payment to be felt more, than present.
1.3 HYPOTHESIS :-

The following Hypothesis is developed during the process of exploring the nature of problem (as stated at 1.1) under investigation.

"AS A MEASURE TO SUPPORT BALANCE OF PAYMENT POSITION FOREIGN CURRENCY NON-RESIDENT DEPOSIT SCHEME HAS MADE SIGNIFICANT PROGRESS TOWARDS CORRECTING DISEQUILIBRIUM IN BALANCE OF PAYMENT. HOWEVER, SOME IMPROVEMENTS IN THE SCHEME ARE NECESSARY SO AS TO ENHANCE SMOOTH AND STEADY INFLOW OF FOREIGN EXCHANGE."

1.4 THE SIGNIFICANCE OF STUDY :-

During the course of study the Researcher has considered all facets of Balance of Payment and Foreign Currency Non-Resident accounts. The endeavour of research is to critically examine Foreign Currency Non-Resident accounts in relation to Balance of Payment. As a part of study Researcher came in contact with various Non-Resident Indians either personally or through questionnaire. All these made Researcher to realise the important role of Non-Resident Indian's in general and that of Foreign Currency Non-Resident accounts in particular in Government's pursuit of bringing in foreign exchange. It means that in the light of broader perspective of mobilising foreign exchange resources, the study would certainly be thought provoking for the Government. To elaborate further on this point it is argued that as per second objective, Foreign Currency Non-Resident scheme
is modified to have favourable impact on Balance of Payment. This modified scheme is viewed as liberalisation of Government's attitude towards Non-Resident Indians, which in turn would bring about rise in flow of inward remittances. The rise in inward remittances could be utilised for payments of imports and thus would to some extent reduce burden of external debt. It is in this sense that the study is significant to solve Foreign Exchange crunch which the Government is facing today. The significance of the study also lies in the fact that, in this research work emphasis is more on what Non-Resident Indians think about Foreign Currency Non-Resident Scheme and due weightage is given to this fact while suggesting modifications in the scheme.

To sum up the significance of this study lies in following facts:-

1] It highlights role of "Foreign Currency Non-Resident scheme" in Balance of Payment.

2] It throws light on crucial role of "Non-Resident Indians" in National economy.

3] It initiates Government to liberalise its policy towards "Non-Resident Indians."

4] It emphasises rise in inward remittances from "Non-Resident Indians."

5] It explains how scheme supplements in managing Balance of Payment crisis.
6] It is innovative as it takes into account views of users of scheme as well as that of implementing authorities.

1.5 NATURE OF STUDY :-

The study has been broadly made in three parts.

The first part initially deals with "Balance of Payment" and factors affecting "Balance of Payment" in general and later reviews India's Balance of Payment in particular.

In the second part of the study attention has been focused on 'Foreign Currency Non-Resident scheme' and its critical analysis.

The third part relates to field work in the form of collection of data (Primary as well as Secondary) and its presentation. As a part of study the Researcher has made series of discussions with officials of representative sample of banks (A.D) by way of holding "Unstructured Interviews" and also distributed "Structured Questionnaire" to the representative sample of Non-Resident Indians. With the help of "interviews" and "questionnaire" the Researcher could gain as much information as possible about "Foreign Currency Non-Resident scheme" from which 'Primary data' was gathered. The 'Secondary data' was gathered from exhaustive readings of Reserve Bank of India's journals and publications. The detailed analysis of 'Primary' and 'Secondary' data led the Researcher to test validity of "Hypothesis". Against background of study, certain suggestions have been made at the end.
Thus, for systematic study it was thought fit to divide whole thesis into seven chapters, the broad outline of each is as given below.

Chapter-1 : Introduction

This chapter initially presents the very problem under consideration and later discusses about methodology adopted by the Researcher to investigate the problem. The "Objective" and "Hypothesis" has been stated in this chapter only. The chapter ends with relevant definitions.

Chapter-2 : Conceptual Framework of Balance of Payment

This chapter presents conceptual framework of Balance of Payment, in general.

Chapter-3 : Structure of India's Balance of Payment

This chapter presents structure of India's Balance of Payment, in particular.

The thesis is concerned with the study of "Foreign Currency Non-Resident scheme" in relation to "Balance of Payment", hence it was found pertinent to create necessary background of "Balance of Payment" as regards its general concepts and with particular reference to India. This has been done in above two chapters.
Chapter-4 : Foreign Currency Non-Resident Deposit Scheme and its critical evaluation

Against the background of Balance of Payment created in preceeding two chapters, the Researcher has presented details about Foreign Currency Non-Resident Deposit Scheme in this chapter. The chapter ends with critical evaluation of the scheme.

The research work done in preceeding chapters (1 to 4) created theoretical base or foundation on which edifice of the thesis has been built in succeeding chapters (5 to 7). The chapter 5 and 6 goes towards proving of "Hypothesis" and chapter-7 is the Researcher's contribution to the research work undertaken.

Chapter-5 : Preliminary to Survey

In order to test validity of hypothesis it was considered necessary by the Researcher to gather 'primary' as well as 'secondary' data.

This chapter has been specially written, which presents preliminary aspects like need and technique for survey of Non-Resident Indians (Users of the scheme) and Authorised Dealers (Implementing Authorities of the scheme) by selecting representative sample of each.

Chapter-6 : Presentation of Data, Findings of Survey, Observations and Conclusions

The primary data originated from survey as well as secondary data collected from various Reserve Bank of India's publications,
journals has been presented in this chapter. The findings and observations drawn from data and conclusions arrived has been given at the end of the chapter. The validity of hypothesis has been put to test in this chapter only.

Chapter-7 : Suggestions and Recommendations

In pursuance to the conclusions drawn at the end of chapter-6, the chapter-7 begins with various suggestions based on the research work done. The Researcher has given ten suggestions in all, that are of practical significance. The chapter and with that thesis, has been concluded with a small note on "Scope for further research".

1.6 METHODOLOGY :-

The methodology adopted for the research work undertaken is as follows :-

A) Data Collection :-

The statistical data on "Balance of Payment" is obtained from journals and bulletins published by Reserve Bank of India. The very scheme of Foreign Currency Non-Resident Deposit came into being in the year 1975. Since, Reserve Bank of India being the governing authority of the scheme, it was necessary to look for old records available at Exchange Control Department of Reserve Bank of India. On going through records, it was noticed that time and again Reserve Bank of India has made structural changes in the scheme that were communicated to "Authorised Dealers" through A.D., M.A., G.P. and COX series of circulars.
This has been the practice followed by Reserve Bank of India even today. All such circulars right from year 1975 were obtained and all important changes have been noted. This was one of the sources for collection of 'Secondary data'. As noted at 1.5, 'Primary data' was derived from feedback received from respondents to the "Structured Questionnaire" and "Unstructured Interview".

B] Discussions :-

To probe deep into study the Researcher made series of discussions about the scheme and its functioning, with Reserve Bank of India's Exchange Control departmental authorities and managers of International Banking departments of Nationalised Banks. The discussions at Reserve Bank of India's level were useful from the view point of understanding very motive in introducing the scheme and making relevant amendments therein. The discussions at bank level gave the Researcher precise idea about actual functioning or working of the scheme. Thus, these discussions made the Researcher acquainted with the 'Principles of Management' of the scheme. The banks selected for the above purpose were -

a) State Bank of India (International Banking Division)
b) Bank of Maharashtra
c) Citi Bank

The selection of above banks was thoughtful. The State Bank of India being the bank with largest network of branches and Bank of Maharashtra being lead bank in Maharashtra and Citi Bank being foreign bank, same were selected. The discussions with banks officials were held in the form of 'Unstructured Interviews'.
C] **Readings** :

To gain further insight into study and with a view to collect more and more information about the Foreign Currency Non-Resident Scheme following special readings were made:


b) The paper cuttings on Non-Resident Indians and Balance of Payments from newspapers like Economic Times, Financial Express and other financial magazines.

c) Special publications by Foreign Exchange Dealers Association of India on Non-Resident Accounts.

D] **Questionnaire** :

In a 'Hypothesis it is stated that "Foreign Currency Non-Resident Scheme" has made significant progress in correcting disequilibrium in Balance of Payment. Its favourable impact on Balance of Payment is dependent on how well the scheme is received by Non-Resident Indians, and how do they respond to structural changes in the scheme by investing into Foreign Currency Non-Resident Deposits and thereby contributing to improve Balance of Payment position. It indirectly means "Empirical testing of Hypothesis". For this purpose the Researcher conducted survey and drafted a "Structured Questionnaire" meant for distribution among a representative group of Non-Residents which enabled the
Researcher to elicit their opinion about the scheme itself. As mentioned earlier the primary data was collected by means of the questionnaire.

E] Analysis of Data :-

With the help of critical analysis of statistical data from year 1975 to 1991 (Secondary data) and observations based on survey (Primary data) validity of hypothesis has been put to test. This led the Researcher to draw certain inferences/conclusions on present status of the scheme and suggest recommendations therein.

1.7 REVIEW OF LITERATURE :-

The Researcher has not come across any literature directly on "Foreign Currency Non-Resident Accounts and its relation to Balance of Payment".

The literature available on Balance of Payment basically considered trends in Balance of Payment during plan periods and its analysis.

The literature available on "Foreign Currency Non-Resident Scheme" was in the form of proceedings of seminars or meets arranged from time to time by Banks or Chamber of Commerce. The seminars conducted by banks were basically from deposit mobilisation point of view. Non-Resident Indian meets organised by Chamber of Commerce discussed all types of avenues made open by the Government for Non-Resident Indians to invest in India. It was found that mainly such meets stressed upon "Portfolio Investment" aspect.
Thus, review of available literature showed that it considered "Balance of Payment" and "Foreign Currency Non-Resident Scheme" in isolation and the relationship of the two has not been discussed anywhere so far. The Researcher therefore felt that the proposed study of impact of Foreign Currency Non-Resident Scheme on Balance of Payment based on empirical observations would be more meaningful one and also add new dimensions to the present available literature in this regard.

1.8 LIMITATIONS OF STUDY :-

A] The study has been made from the year 1975 which has been the year of inception of Foreign Currency Non-Resident Scheme. Since then, the Researcher has studied the scheme for more than 15 years i.e. the year upto which required data in final form is compiled and available at Reserve Bank of India's Exchange Control department, Bombay.

B] In the research work focus of attention has been on the study of the relationship between Foreign Currency Non-Resident Scheme and Balance of Payment. To put it in a more precise manner whole research work is a critical study of Foreign Currency Non-Resident Scheme as one of the measures to correct disequilibrium in current account of Balance of Payment. Other measures to finance current account deficit have not been taken into consideration as they fall beyond scope/objective of study.
C] In this research work, investment made by Non-Resident Indians (Corporate Sector Investment) is not at all considered as it falls beyond the scope of research work.

D] Since the universe under study (viz. Non-Resident Indians spread all over world) being very large around 360 Non-Resident Indians were taken as a "representative sample" to whom "structured questionnaire" was mailed. To get maximum feedback, continuous follow-up was made. However, rate of return was low due to constraints like -

a) Costly overseas correspondence.

b) Difficulty in ascertaining whether "Non-Resident Indian" (in a sample under study) has come for temporary stay in India and in that case contacting such "Non-Resident Indian" for filling up questionnaire.

E] Reserve Bank of India's policy towards Non-Resident Indians and Exchange Control rules and regulations governing Foreign Currency Non-Resident Accounts are subject to change and alterations.

1.9 DEFINITIONS :-

Before proceeding further, the Researcher would like to state certain definitions and terms that are frequently used in further chapters.
A] Balance of Payment :-

a) It is the principal tool for the analysis of monetary aspects of International Trade.

b) It is a systematic record of all international economic transactions of that country during a given period, usually a year.

c) It is a device of recording all economic transactions within a given period between residents of one country and rest of the world.

B] In accordance to Foreign Exchange Regulation Act-1973 by -

a) Authorised Dealer (A.D.) :-

Authorised Dealer means a person for the time being authorised by the Reserve Bank of India under Section-6 of Foreign Exchange Regulation Act,1973 to deal in foreign exchange.

b) Currency :-

It includes all coins, currency notes, bank notes, postal notes, postal orders, money orders, cheques, drafts, travellers cheques, letters of credit, bills of exchange and promisory notes.

c) Foreign Currency :-

It means any currency other than Indian currency and currencies of Nepal and Bhutan.
d) Foreign Exchange :-

'Foreign Exchange' means foreign currency and includes -

(i) all deposits, credits and balances payable in any foreign currency and any drafts, travellers cheques, letters of credit and bills of exchange expressed or drawn in Indian currency but payable in any foreign currency.

(ii) any instrument payable, at the option of the drawee or holder thereof or any party thereto either in Indian currency or in foreign currency or partly in one and partly in the other.

C) Non-Resident Indian (N.R.I.) :-

Non-Resident Indians are those who come under any of the following categories -

a) Indian citizens who stay abroad for employment or for carrying on business or vocation or any other purpose in circumstances indicating an indefinite period of stay outside India.

b) Government servants deputed abroad on assignments with foreign governments or international/multinational agencies like World Bank (I.B.R.D.), International Monetary Fund (I.M.F.), World Health Organisation (W.H.O.) and Economic and Social Commission for Asia and Pacific (ESCAP).
c) Officials of Central/State governments and Public Sector undertakings deputed abroad on assignment or posted to their branches or offices including Indian diplomatic missions abroad.

Such Non-Resident Indians become resident only when they come back to India for employment or for carrying on in India any business or vocation or for any other purpose indicating indefinite period of stay in India. However, they are not regarded as persons resident in India during their short visits to India say on holidays, business etc.

D] Persons of Indian Origin :-

A person is deemed to be of Indian origin if he at any time held Indian passport or he or either of his parents or any of his grand parents were an Indian and permanent resident of undivided India at any time. A wife of a citizen of India or of a person of Indian origin is also deemed to be of Indian origin even though she may be of Non-Indian parentage or origin.

E] Overseas Corporate Bodies (O.C.B.) :-

Overseas Corporate Bodies predominantly owned by individuals of Indian nationality or origin residing outside India include overseas companies, partnership firms, societies and other corporate bodies which are owned directly or indirectly to the extent of atleast 60% by individuals of Indian nationality or origin.
residing outside India (NRI's), as also overseas trusts in which at least 60% of beneficial interest is irrevocably held by such persons (NRI's).

Barring a few, most of the facilities that are available to Non-Resident Indians are also made available to overseas corporate bodies predominantly owned by NRI's.

The facilities continue to remain available to overseas corporate bodies (OCBs) so long as the ownership/beneficial interest held in them by Non-Resident Indians continue to be at or above level of 60%.

F) Non-Resident Rupee Accounts (NRO A/cs.) :-

These are rupee accounts, (other than blocked accounts and accounts opened under Non-Resident External Account Scheme) maintained with Authorised Dealers by persons, firms, companies and other organisations resident outside India are referred to as Non-Resident Rupee Accounts.

G) Non-Resident External Accounts and Foreign Currency Deposit Accounts (NRE & FCNR Accounts) :-

These are bank accounts maintained in the name of persons resident outside India in terms of Non-Resident External Account rule 1970 are known as Non-Resident External Accounts. Initially they were permitted to be opened with Authorised Dealers in rupees only, however, since 1st Nov.,'75 these accounts were permitted to be opened in designated foreign currencies.
In order to distinguish the accounts maintained in rupees from those expressed in currency designated, in terms of provisions of Non-Resident External Accounts rule 1970, the accounts falling under former category are referred to as 'Non-Resident (External) Rupee Accounts' and those falling under later category are referred to as 'Foreign Currency Non-Resident (FCNR) accounts.

H) Bilateral Group and External Group of Countries :-

The External group includes all countries other than those listed in countries in Bilateral group and member countries in Asian Clearing Union (except Nepal). The countries in the "Bilateral Group" are -

a) Czechoslovakia
b) Romania
c) U.S.S.R.

The countries in the "Asian Clearing Union" are -

a) Bangladesh
b) Myanamara
c) Iran
d) Pakistan
e) SriLanka