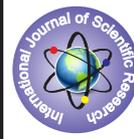


A STUDY ON THE ROLE OF FDI's AND FPI's AND ITS IMPACT ON INDIAN ECONOMY



Management

KEYWORDS:

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ABSTRACT

Investment is a crucial area in business. Every entrepreneur makes various plans about the future investment.

Before making any investment it is very essential to make a deep study of the investment avenues. Today, due to globalisation the entrepreneurs are able to do export and import and at the same time make international investment. Investment diversification has helped the entrepreneurs to manage the risks involved in investment. FDI (Foreign Direct Investment) and FPI (Foreign Portfolio Investment) has emerged as a recent trend in today's business environment. India is a developing economy and developed countries like USA finds India as a biggest opportunity for future growth and development. And hence a lot of foreign capital inflows are flowing into India. The author in this paper concentrates on the role of FDI's and FPI's and its impact in Indian Economy.

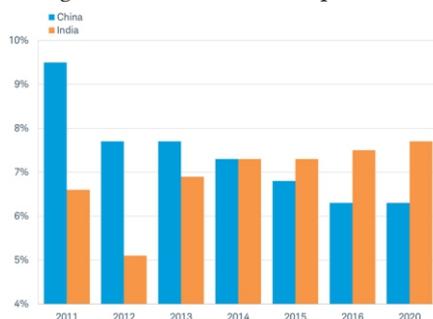
1. Introduction

Indian economy is a growing economy. The growth rate of India is increasing at a faster pace. Even during the global recession started in 2008-09 India was not adversely affected unlike other countries throughout the globe. Investment in India for the past few years has been increased and this has lead to the increase in capital inflows in the country. The major factors affecting the Indian economy is as follows;

- Capital flows and the stock market of India
- Exchange rate fluctuations
- RBI Intervention
- Oil factors
- Political factors

India and China has been competing in various sectors like technology, consumer durable products, electronic devices, human resources etc., But luckily today we are in a position ahead of China in terms of GDP rate. Below chart depicts the comparison of India and China in the aspect of GDP rate for the past 5 years.

Chart showing India's Growth Rate in comparison with China



2. Objective of the Study

The objective of the study is to analyze the Investment arena in Indian economy. Investment made in India by the foreign countries for the past few years is high. This has lead to various job opportunities for Indian youth. Still the rate of unemployment in India remains higher as compared to other nations. Here the author focuses on FDI's and FPI's and its impact on Indian Economy.

3. Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)

Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) are the two ways through which foreign investors can invest in an economy.

For a better understanding let me explain with an example - Imagine that you are a multi-millionaire in America and are looking for your next investment opportunity. In addition, you are planning to invest in industrial machinery manufacturing company.

Two options are available for investment;

- acquiring a company that manufactures industrial machinery, and
- Purchasing a large stake/share in a company or companies that makes such machinery.

The former is an example of direct investment, while the latter is an example of portfolio investment. Now, if the machinery maker were situated in a foreign jurisdiction, say Mexico, and you want to invest in this Mexican based machinery manufacturer then your investment would be considered as FDI. As well, if the companies whose shares you were considering buying were also located in Mexico, your purchase of such stock or their American Depository Receipts (ADRs) would be regarded as FPI.

For better understanding of the terms FDI and FPI it becomes necessary to differentiate between the two. The major differences are as follows;

S.No.	FDI	FPI
i.	Active participation	Passive participation
ii.	Considerable interest of the company	Passive holding like shares, bonds etc.,
iii.	Right of ownership and management	Right of ownership only
iv.	Managed with great efficiency and competence	No direct control and hence FPI projects are less efficiently managed
v.	Investors make investment in both financial and non-financial assets	FPI investors invest only in financial securities/assets
vi.	Involves high risk and investments cannot be sold-out easily unlike FPI	FPI assets are liquid and hence can be easily sold

4. Foreign Direct Investment (FDI)

4.1 Definition

According to OECD Foreign direct investment (FDI) is defined as "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)".

4.2 Meaning

Foreign Direct Investment (FDI) implies an investment made with purpose to obtain an ownership stake in a company that is domiciled in a country by an enterprise situated in some other country. The investment may result in the transfers of funds, resources, strategies, technical know-how, etc. The investor company has a substantial amount of influence and control over the investee company in the foreign country. If the company obtains more than 10% of the capital then the investor is said to be made an FDI and also he gets the voting rights and participation in the management and decision making of the company.

Economic liberalisation was initiated in India in wake of the 1991 economic crisis and since then FDI has steadily increased in India. It was Sri.Manmohan Singh and Sri.P.V.Narasimha Rao who brought FDI in India, which subsequently provided more than one crore jobs.

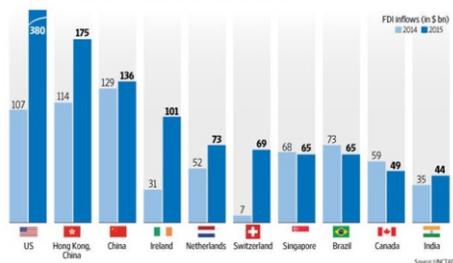
4.3 FDI Inflows and FDI Outflows

4.3.1 FDI Inflows – India (2016)

FDI inflows means the volume of investment made in India by foreign countries. India has been ranked 10th in the Foreign Direct Investment (FDI) inflows among the countries in the world, as per the latest 2016 World Investment Report by the United Nations Conference for Trade and Development (UNCTAD). The list is topped by United States followed by Hong Kong, China, Ireland, Netherlands, Switzerland, Singapore, Brazil and Canada.

FDI RANKINGS

The US tops in FDI inflows, with China at third place and India at 10th.



Source: Secondary Data

4.3.2 FDI Outflows / Outward Foreign Direct Investment – India (2016)

FDI outflows mean the investment made by India in other foreign countries. India has emerged as one of the strongest performers in the world in mergers and acquisitions. As per the statistics India's Outward Foreign Direct Investment (OFDI) dropped to US\$ 1.86 billion in July 2016, as against US\$ 2.3 billion in July 2015.

UK announced that India has become the third largest source of FDI for them as investments increased by 65 per cent in 2015 leading to over 9,000 new and safeguarded jobs.

4.4 FDI Routes

There are two main routes through which India gets FDI.

Automatic route: By this route FDI is allowed without prior approval by Government or Reserve Bank of India.

Government route: Prior approval by government is needed via this route. Foreign Investment Promotion Board (FIPB) is the responsible agency to oversee this route.

4.4.1 Automatic Route in FDI

India's Foreign Direct Investment (FDI) rules have been substantially liberalized over the past few years. Most sectors are now open to 100% FDI, meaning thereby, that the foreign companies do not need a prior approval or permission for making investment either by the Government or the Reserve Bank of India (RBI). They are only required to intimate and inform the Regional office concerned of the Reserve Bank within 30 days of receipt of inward remittance.

The following documents need to be filed with the RBI:

- Name of the collaborators/ promoters/ shareholders
- Details of allotment
- Copy of the foreign collaboration agreement

4.4.2 Approval route in FDI

In contrast, the approval route is that any company planning to make investment in certain sectors must get the approval of the Government. There are certain activities that are not covered under the automatic route and that require prior Government approval and are considered by the Foreign Investment Promotion Board (FIPB). Following list include the activities for which automatic route for foreign investment is not available:

- Banking,
- NBFC's Activities in Financial Services Sector,
- Civil Aviation,
- Petroleum Including Exploration/Refinery/Marketing,
- Housing & Real Estate Development Sector for Investment from Persons
- Venture Capital Fund and Venture Capital Company,
- Investing Companies in Infrastructure & Service Sector,
- Atomic Energy & Related Projects,
- Defence and Strategic Industries,
- Print Media,
- Broadcasting,
- Postal Services.

4.5 Foreign Portfolio Investment (FPI)

Foreign Portfolio Investment (FPI) is investment by non-residents or non-nationals in Indian securities including shares, government bonds, corporate bonds, convertible securities, infrastructure securities etc. The group of investors who make investment in these securities are known as Foreign Portfolio Investors.

SEBI has recently stipulated the condition for Foreign Portfolio Investment. According to this, any equity investment by non-residents which is less than or equal to 10% of capital in a company is portfolio investment. While above this the investment will be counted and termed as Foreign Direct Investment (FDI).

5. Conclusion

Despite of increase in FDI and FPI in India the rate of unemployment remains to be higher for the past several years. India is a developing economy and statistics projects India to be a supreme nation by 2030. Opportunities in India have attracted huge volume of FDI and FPI and this helps in appreciating the value of INR also. Indian Government is also taking various initiatives in developing the nation by creating more campaigns like Make in India, Skill India, etc., and this may help to reduce the various problems of the country such as unemployment, illiteracy, poor standard of living, etc.

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