Types of Foreign Capital

- Foreign capital includes any inflow of capital into the home country from abroad
Important components of foreign capital flows

Foreign aid or assistance

a) Bilateral
b) Multilateral aid
c) Tied aid and untied aid
d) Foreign grants
Borrowings

a) Direct inter government loans
b) Loans from international institutions (e.g. world bank, IMF, ADB)
c) Soft loans for e.g. from affiliates of World Bank such as IDA
d) External commercial borrowing, and
e) Trade credit facilities
More

- Deposits from nonresident Indians (NRI)
- Investments in the form of:
  - Foreign portfolio investment (FPI) in bonds, stocks and securities, and
  - Foreign direct investment (FDI) in industrial, commercial and similar other enterprises
Foreign Direct Investment (FDI)

- The resident of one country (i.e. Home country) acquires ownership of an asset in another country (i.e. The host country)

- Involves ownership, control as well as management of the asset in the host country
Foreign Direct Investment (FDI)

- Real investments
- Exercise control
- Long term relationship and lasting interest
- Acquisition of more than 10 percent of the shares of the target asset.
Foreign Direct Investment (FDI)

- Has three components
- Equity capital
- Reinvested earnings and
- Other direct capital
The main forms of direct investments

- Opening of overseas companies,
- Creation of joint ventures
- Joint development of natural resources
Foreign Portfolio Investment (FPI)

- ‘Financial capital’
- Not involve ownership or control
- Investment in financial stocks, bonds and other financial instruments
Foreign Portfolio Investment (FPI)

- Effected largely capital market
- Not concerned with manufacture or provision of services.
- Search of returns
- Total stake in a firm at below 10 percent
- Expected to be speculative
- Sudden and destabilizing reversals of portfolio investment
Foreign Direct Investment (FDI)

- Horizontal direct investment
- Vertical investment
- Conglomerate type
- Reciprocal two-way direct foreign investments
- Desire to reap economies of large-scale
- Lack of feasibility of licensing agreements
- To avoid future competition
■ Desire to capture large and rapidly growing high potential emerging markets

■ Ease of penetration getting behind the tariff wall’ import restrictions

■ Lower environmental standards in the host country and saving in costs
- Stable political environment
- Overall favourable investment climate in the host country
- Higher degree of openness to foreign capital exhibited by the recipient country
- Prevalence of preferential investment systems
- The strategy to obtain control of strategic raw material
- Existence of low relative wages in the host country
- Lower level of economic efficiency in host countries
• Tax differentials
• Tax policies of the host country which support direct investment.
• Philanthropic objectives
• Economic, political, and social stability
■ Policies on functioning and structure of markets
■ International agreements on FDI
■ Privatization policy
■ Favourable Trade policies
■ Investment promotion and investment-facilitation services
- Investment incentives
- Lower ‘hassle costs” (related to corruption and administrative efficiency)
- High quality after-investment services
Factors that discourage FDI

- Infrastructure lags,
- High rates of inflation,
- Balance of payment deficits,
- Poor literacy and low labour skills,
- Rigidity in the labour market
■ Bureaucracy and corruption,
■ Unfavourable tax regime,
■ Cumbersome legal formalities and delays, small size of market and lack of potential for its growth,
■ Political instability,
■ Absence of well-defined property rights,
- Exchange rate volatility,
- Poor track-record of investments,
- Prevalence of non-tariff barriers,
- Stringent regulations,
- Lack of openness,
- Language barriers,
- High rates of industrial disputes,
Lack of security to life and property,
Lack of facilities for immigration and employment of foreign technical and administrative personnel,
Double taxation and
Lack of a general spirit of friendliness towards foreign investors.
Modes of Foreign Direct Investment (FDI)

- Opening of a subsidiary or associate
- Equity injection
- Acquiring a controlling interest
Modes of Foreign Direct Investment (FDI)

- Mergers and acquisitions (M&A)
- Joint venture
- Green field investment
- Brownfield investment
Benefits of Foreign Direct Investment

■ competitive environment in the host country
■ Cost-reducing and quality-improving innovations
■ Higher efficiency
■ wider choice and welfare for consumers
- More investment
- Enhance the total output
- Growth and foster economic development
- Employment in the recipient country
- Promote the exports of developing countries
- Secure scarce foreign exchange
- Source of new tax revenue
- Scale economies
- Weakening of the market power of domestic monopolies
- Overall human resources development.
Potential Problems

- highly focused on profits, not on development needs
- Likely to concentrate on capital-intensive methods
- FDI may force local competitors
- Of outflow of capital can happen
- Indigenously developed technology may suffer
- Exploitation of local resources
■ Potential to accentuate regional disparity
■ Accentuate income inequalities
■ through ‘crowding-out’ effect.
■ capital away from crucial investments
- Jobs retained in the home country host country is left with routine management jobs
- Human resource development may not be realized
- Advertising and anticompetitive practices which would induce market distortions.
- Even drive out domestic firms from the industry
- High degree of market power and exist as monopolists
- High growth of wages in foreign corporations
- Cost Escalation in the domestic corporations
- Decreasing competitiveness of domestic companies
- Off-shoring’, or shifting jobs and operations abroad in pursuit of lower operating costs
- Potential national security considerations
- Impact on the host country's commodity terms of trade
- Ruthless exploitation of natural resources and the possible environmental damage.
- Possibility of emergence of a dual economy
- Can exert excessive amount of power in a variety of ways
- Loss of control by host country over domestic policies
- Less developed host country’s sovereignty is put at risk
- Corruption issues
- Unduly influencing policy making and evasion of corporate social responsibility
100 per cent FDI in Insurance intermediaries in India to give a boost to the sector and attracting more funds.
9th largest recipient

- Foreign direct investment equity inflows to India in financial year 2020, by leading investing country (*in billion Indian rupees*)
- See next slide
Source IBEF
In 2020-21 (between April 2020 and September 2020),

- India received the maximum FDI equity inflows from
- Followed by the US
- Cayman islands
- Mauritius
- The netherlands and
- The UK
In 2020-21 (between April 2020 and September 2020),

- Gujarat received the maximum FDI equity inflows
- followed by Maharashtra at
- Karnataka
- and Delhi
India’s outward Foreign Direct Investment (OFDI) in equity, loan and guarantee issue stood at US$ 1.69 billion in February 2019. (RBI),
The department of industrial policy and promotion (DIPP) has been changed to Department For Promotion of Industry And Internal Trade (DPIIT)
India Investment Grid (IIG).

- The department has undertaken an initiative known as India Investment Grid (IIG.) in association with Invest India, India's national investment and facilitation agency.
Some of the major overseas investments by Indian companies in 2019

- Infosys to acquire 75 per cent stake in ABN AMRO’s subsidy.

- Sun Pharmaceuticals raised its stake in Russia’s PJSC Biosintez to 96.96 per cent.
Auto components major JBM group has purchased a majority stake in Linde-Wiemann, a German structural components and assemblies producer.
Hospitality start-up Oyo is planning to invest US$ 1.2 billion for its expansion.

Ashok Leyland has set up a new facility in Dhaka, Bangladesh in a joint venture with IFAD Autos.
Indian IT major Infosys is going to set up a technology and innovation hub in Texas and hire 500 American workers by 2020.
Tyre Manufacturer Balkrishna Industries is going to set up a US$ 100 million production facility in US.

Apollo Tyres has commenced commercial production of its truck tyres at its facility in Hungaria.
Pidilite Lanka Pvt Ltd, ahesives manufacturer Pidilite’s joint venture (JV) company with Macbertan Pvt Ltd, unveiled a new world class manufacturing plant in Sri Lanka.
Government of India’s Public Sector Undertakings (PSUs) have invested over US$ 15 billion in Russia’s oil and gas projects
■ The RBI, encouraged by adequate forex reserves, has relaxed the norms for domestic companies investing abroad

■ The RBI also liberalised/rationalised guidelines for foreign investments abroad by Indian companies
It raised the annual overseas investment ceiling to US$125,000 from US$75,000 to establish JV and wholly owned subsidiaries.
2020

- ONGC Videsh Ltd invested a total of $131.85 million in joint ventures and wholly-owned subsidiaries in Myanmar, Russia, Vietnam, Colombia, British Virgin Islands among others.
Other important firms

- JSW Steel,
- Haldia Petrochemicals,
- HCL Technologies, and
- Mahindra & Mahindra
Tata Consultancy Services invested $27.77 million in a wholly-owned unit in Ireland.

Intas Pharmaceuticals invested $75.22 million in a wholly-owned subsidiary in the UK.
2020 Announcements

- The limits for FPI investment in Government securities (G-secs) and State Development Loans (SDLs) shall remain unchanged at 6% and 2%, respectively, of outstanding stocks of securities for FY 2020-21.
March 2020

- Fully Accessible Route’ for Investment by Non-residents in Government Securities
- Separate route for investment by non-residents in securities issued by the government of India