Foreign Direct Investment (FDI) in India

FDI is a hot topic, with the current government increasing the caps on many sectors; it is something that will definitely shape the economy in the months to come – also having far reaching consequences with the Make in India vision of PM Modi.
So what is FDI? How does it actually work? And some latest news!

1. What is FDI – Foreign Direct Investment?

- Foreign Direct Investment is when persons/companies who/which are non-Indian, invest in Indian companies.
- Thus, through FDI, the investors become the shareholders in Indian companies and usually have stake that will give them controlling power of the company.
- FDI can be done in many ways – popular of which are through acquiring of shares and merger and acquisition.
- Also important to know is that there are **two 'routes' of FDI,** namely, **Automatic Route (**does not require RBI or CG approval) and the **Government Route** (requires the approvals for those not covered under the automatic route).

2. Why would anyone invest in another country?

Well, there are plenty of reasons – why would a foreign company invest in any Indian Company?

- There could be tax incentives,
- The company believes that doing a particular business will be more profitable in India,
- There could be tax exemptions favorable to the company both in India and in the company's home country,
- Or, it might be up for some concessions in the home country as a part of the country's trade agreement with India …
- Or, the company might be aiming at starting operations in South Asia and India is the most developing economy in this part of the world!

The reason could something else too – but mostly it is related to more business opportunities, tax benefits, more profitability etc.

3. What FDI means to a company?

- Foreign Investors become shareholders of a sizeable stake – and the reason they are investing is because they want returns – good returns.
- Which means they'll be very much interested in the working of the company – so that their money earns returns.
- They'll also be active shareholders, board members – and ensure the company is utilizing its resources properly and towards the growth of the company, increasing turnover and ultimately profits.
- To ensure the company gets the best resources to produce best results – the FDI investors may also bring with them management personnel, advanced technology, new system of work and management of the company etc.

4. What does FDI mean to the home/ host country – India?

- FDI brings in more capital into the economy.
- It brings in the much needed foreign exchange – foreign currency.
- It also boosts the domestic economy and industries and generally triggers a positive economic ripple effect.
- It brings in more revenues for the Income Tax Department.
- Advanced technology touches the shores of the host country, along with technically superior human resource.
- Creation of new jobs also happens – and in India jobs can never be few!

The above mentioned points can also be considered to be the **pros** or benefits from FDI.

Which leads us to the **cons** of FDI in India:

- It can lead to the domestic companies losing their market share.
- Domestic companies may lose out to the competition altogether.
- Thus cons are always from the point of view of the host country and how FDI will effect its own economy.

- FDI in retail- which had been in the middle of the entire FDI related storm – also meant farmers, small retailers, and the mom and pop shops losing their business.

4. Sectors where FDI is NOT ALLOWED

FDI in the following sectors are prohibited completely – i.e., under both Automatic and Government routes it is **not allowed.**

- Atomic Energy
- Agricultural and Plantation activities
- Gambling, betting and lottery
- Nidhis and Chit Funds
- Real Estate
- Manufacture of cigarettes and tobacco

5. What are FIIs?

- Foreign Institutional Investors (FIIs) are persons or companies incorporated outside India (companies can be Mutual funds, Pension funds, investment companies, foreign banks etc.), investing in shares of a company – where their investment is very less. They do not have any sizeable investment – they do not have any controlling power in the company.
- It is just like you and me investing in shares of Reliance Industries – only investing is done by people who are not Indian residents; and they have to be registered with SEBI to participate in the market.
- So, basically FIIs are the financial market players – and the source of liquidity in the markets. Their investing in the Indian markets project a +ve image and brings in more investors.
- There is a ceiling limit of 24% FII of paid-up capital of an Indian company, and 20% in case of PSU banks.
- Just like FDIs, FIIs also bring in forex – but when the share Indian sharemarket sees a down – or the markets of other countries sees an upswing – these FIIs are quick to sell their stakes in Indian companies and invest the money where the markets are progressing!
- The major difference between FDIs and FIIs are that the former actually has a lot of stake in the company’s well being and

profitability in the long run – whereas the FIIs want short term returns on the investments.

- Foreign exchange reserves always favour more FDIs rather than FIIs as FIIs are the first to abandon the sinking ship!

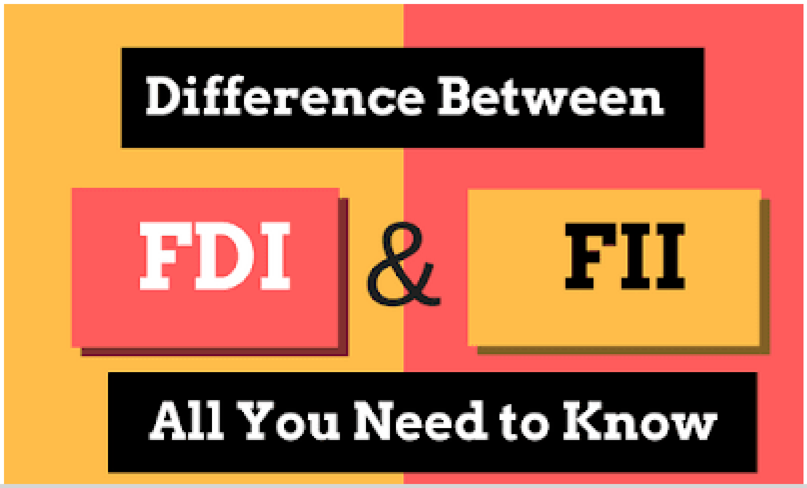
6. What is India's stance on FDIs and FIIs?

- India is now taking a positive and progressive stance towards FDIs and FIIs with encouraging talks on about FDI cap increase in News Media and the ongoing debate on multiple brand retailing.
- Recent talks with USA has seen India inviting the US to 'make, innovate and invest' in India – signaling considerable inflow of FDI in the coming months
- FIIs are witnessing a surge because of the over upward trend of the economy, the markets and the recent RBI rate cut. With the economies of US and other developed and developing countries still in the 'recovery' stage – worldwide investors have turned India's way!

7. Trivia:

- FDI was introduced in India way back in 1991 by the then Finance Minister Dr. Manmohan Singh.
- USA has the maximum incoming FDI followed by UK and other counties like Hong Kong, China etc.(not necessarily in the same order)
- Singapore has made maximum FDI in India as per F.Y. 2014's stats. The previous 1st place was held by Mauritius!
- Service Sector has always received maximum FDI in India.
- Focus now shifting to Manufacturing sector – with the Make in India vision.

Difference between FDI and FII: All you need to know



- ## Introduction:
- Foreign Direct Investment (FDI) and Foreign Institutional Investment or, Investors (FII) are two different forms of investment tools for investing in a foreign country. Many of us are generally confused about FDI and FII. FDI basically means to invest in a foreign company and to acquire controlling ownership in that company and on the other hand FII means investing in the foreign stock market.
  FDI is given preference over FII because it helps in the economic growth of the country.

- ## Foreign Direct Investment (FDI):
- When any foreign organisation or, institution of one nation makes an investment in an organisation or, institution of another country then this is called as Foreign Direct Investment. This investment can be in various sectors like electricity, drinking water, road, factory, healthcare, properties, insurance etc. It is called direct investment because the Investors get a substantial amount of administrative control over the foreign company.
  Those poor countries where the availability of finance or, funds for their development and growth is quite low can avail the

required financial support from the developed countries having good financial condition.

- ## Foreign Institutional Investment/Investors (FII):
- The companies of a country that invest in the financial market i.e. the Stock market of a foreign country are known as Foreign Institutional Investment. The companies who invests through FII in another country needs to be registered with the Securities and Exchange Board of that country.

- ## Difference Between FDI and FII:

	FDI	**FII**
1.	Foreign Direct Investment.	Foreign Institutional Investment or, Investors.
2.	When any organisation of one nation makes an investment in any organisation of another country, it is known as FDI.	When any organisation of any country makes an investment in the Stock market of another country, it is known as FII.
3.	FDI brings long term capital.	FII brings long term capital as well as short term capital.
4.	Entry and exit is difficult in case of FDI.	Entry and exit is very easy in FII.
5.	In FDI transfer of funds, technology, resources, strategies, new concept are done from the developed countries to the developing one.	In FII only funds are transferred from one country to another.
6.	FDI helps in developing infrastructure, increasing job opportunities and also plays a key role in the economic development of the country.	FII does not play any role in the economic development of the country.
7.	Through FDI, there is administrative control in the company.	Through FII, there is no any control in the company.
8.	FDI includes complex procedures and also don’t gives an easy way in making money quickly.	Through stock markets investors can make money quickly under FII.
9.	Results in increase in GDP.	Results in increase in capital of the country.

- **Conclusion:**
- Keeping above points in mind we can say that both FDI and FII are two completely different forms of investment. Both have their pros and cons. However FDI is preferred over FII because it not only brings capital but also brings the latest technology, better infrastructure, better management and job opportunities.