CHAPTER-2

FII’s Influence on Indian Stock Market
FII (Foreign Institutional Investors) is used to denote an investor, it is mostly of the form of a institution or entity which invests money in the financial markets of a country. The term FII is most commonly used in India to refer to companies that are established or incorporated outside India, and is investing in the financial markets of India. FII is investment made by foreign Mutual Funds in India. Who are FII's? Mutual funds, insurance companies, pension funds, university funds, investment trusts, endowment funds, charitable trusts, asset management companies, incorporated outside India but investing in equity and debt securities in the country are known as FII's. They collect money from individuals and corporate (primarily from countries belonging to the European and American continents), and invest it in financial instruments worldwide, with India being one of the targeted markets. Institutional Investor is any investor or investment fund that is from or registered in a country outside of the one in which it is currently investing. The growing Indian market had attracted the foreign investors, which are called Foreign Institutional Investors (FII).

The key benefits of FII investments include reduced cost of capital, imparting stability to India balance of payment, institutionalizing the market, improving market efficiency and strengthening corporate governance. FIIs have been termed as speculators, arbitrageurs and fair weather friends.
Foreign Reserves through FII's: History

India opened its stock market to foreign investors in September 1992, and in 1993, received portfolio investment from foreigners in the form of foreign institutional investment in equities. This has become one of the main channels of FII in India for foreigners. FIIs wanting to invest in equity and debt securities in India have to register with SEBI (Securities and Exchange Board of India) under the Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995. They also have to get approval from the RBI (Reserve Bank of India) to operate foreign currency accounts (to bring in and take out funds) and rupee bank accounts (to pay for transactions).

SEBI lays down parameters relating to eligibility, investments and taxation. Chief among these relates to investment limits. Typically FIIs invest either directly or as sub accounts (through participatory notes) or as domestic entities. Participatory Notes (P Notes) are used by FIIs for foreign funds, not yet registered.

Initially, there were many terms and conditions which restricted many FIIs to invest in India. But in the course of time, in order to attract more investors, SEBI has simplified many terms such as:-

• The ceiling for overall investments of FIIs was increased to 24% of the paid up capital of Indian company.

• Allowed foreign individuals and hedge funds to directly register as FIIs.

• Investment in government securities was increased to US $ 5 Billion.

• Simplified registration norms.
How FIIs Invest?

FII is allowed to enter into our country only through stock exchanges either in the form of equity or debt. Thus it makes an impact on the rise or fall of SENSEX, since FII is allowed to be purchased or sold daily. The daily transaction of FII is the reason behind the volatility in the stock markets and has strong impact on the various macro-economic variables and the economy as a whole. International institutional investors must register with the Securities & Exchange Board of India (SEBI) to participate in the market. One of the major market regulations pertaining to FIIs involves placing limits on FII ownership in Indian companies. They actually evaluate the shares and deposits in a portfolio. The major source (almost 50%) of money the FIIs invest is from the issue of Participatory Notes (P-Notes) or sometimes called Offshore Derivatives.

Most of the under developed countries suffer from low level of income and capital accumulation. Though, despite this shortage of investment, these countries have developed a strong urge for industrialization and economic development. As we know the need for Foreign capital arises due to shortage from domestic side and other reasons. Indian economy has experienced the problem of capital in many instances. While planning to start the steel companies under government control, due to shortage of resources it has taken the aid of foreign countries. Likewise we have received aid from Russia, Britain and Germany for establishing Bhilai, Rourkela and Durgapur steel plants. It is observed that the FIIs investment has shown
significant improvement in the liquidity of stock prices of both BSE and NSE. However, it is believed that there exists a high degree of positive correlation between FIIs investment and market capitalization, FIIs investment and BSE & NSE indices, revealing that the liquidity and volatility was highly influenced by FIIs flows. Further, it is also proved that FIIs investment was a significant factor for high liquidity and volatility in the capital market prices. The present study is proposed to analyze the impact of FIIs on Indian capital market with special reference to BSE. An investor or investment fund that is from or registered in a country outside of the one in which it is currently investing is known as Foreign Institutional Investment and investors are known as Foreign Institutional Investors. Institutional investors include hedge funds, insurance companies, pension funds and mutual funds. The term is used most commonly in India to refer to outside companies investing in the financial markets of India. International institutional investors must register with the Securities and Exchange Board of India to participate in the market. One of the major market regulations pertaining to FIIs involves placing limits on FII ownership in Indian companies.

Investment limits for FII Foreign Institutional Investors (FIIs) are allowed to invest in the primary and secondary capital markets in India through the portfolio investment scheme (PIS). Under this scheme, FIIs can acquire shares/debentures of Indian companies through the stock exchanges in India. The ceiling for overall investment for FIIs is 24 per cent of the paid up capital of the Indian
company. The limit is 20 per cent of the paid up capital in the case of public sector banks, including the State Bank of India. The ceiling of 24 per cent for FII investment can be raised up to sectoral cap/statutory ceiling, subject to the approval of the board and the general body of the company passing a special resolution to that effect. And the ceiling of 10 per cent for NRIs/PIOs can be raised to 24 per cent subject to the approval of the general body of the company passing a resolution to that effect. The ceiling for FIIs is independent of the ceiling of 10/24 per cent for NRIs/PIOs. The Reserve Bank of India monitors the ceilings on FII/NRI/PIO investments in Indian companies on a daily basis. For effective monitoring of foreign investment ceiling limits, the Reserve Bank has fixed cut-off points that are two percentage points lower than the actual ceilings. The cut-off point, for instance, is fixed at 8 per cent for companies in which NRIs/PIOs can invest up to 10 per cent of the company’s paid up capital. The cut-off limit for companies with 24 per cent ceiling is 22 per cent and for companies with 30 per cent ceiling, is 28 per cent and so on. Similarly, the cut-off limit for public sector banks (including State Bank of India) is 18 per cent. Once the aggregate net purchases of equity shares of the company by FIIs/NRIs/PIOs reach the cut-off point, which is 2% below the overall limit, the Reserve Bank cautions all designated bank branches so as not to purchase any more equity shares of the respective company on behalf of FIIs/NRIs/PIOs without prior approval of the Reserve Bank.
Offices are then required to intimate the Reserve Bank about the total number and value of equity shares/convertible debentures of the company they propose to buy on behalf of FIIs/NRIs/PIOs. On receipt of such proposals, the Reserve Bank gives clearances on a first come first served basis till such investments in companies reach 10 / 24 / 30 / 40/ 49 per cent limit or the sectoral caps/statutory ceilings as applicable. On reaching the aggregate ceiling limit, the Reserve Bank advises all designated bank branches to stop purchases on behalf of their FIIs/NRIs/PIOs clients. The Reserve Bank also informs the general public about the caution and the stop purchase in these companies through a press release.

**Basis for calculating FII investment limit**

Investment limit by all registered FIIs or sub accounts in primary or secondary markets under Portfolio Investment Scheme is subject to a ceiling of 24% of issued share capital of a company. The limit can be extended upto 49% per sectoral cap if the general body of the company approves it.

**P-Notes (Participatory Notes)/Offshore Derivatives** are instruments used by foreign investors that are not registered with the SEBI (Securities & Exchange Board of India) to invest in Indian stock markets. For example, Indian-based brokerages buy India-based securities and then issue Participatory Notes to foreign investors. Any dividends or capital gains collected from the underlying securities go back to the investors. That is why they are also called Offshore
Derivative Instruments. Trading through Participatory Notes is easy because participatory notes are like contract notes transferable by endorsement and delivery. Secondly, some of the entities route their investment through Participatory Notes to take advantage of the tax laws of certain preferred countries. Thirdly, Participatory Notes are popular because they provide a high degree of anonymity, which enables large hedge funds to carry out their operations without disclosing their identity. The first question that we need to ask is the necessity of FIIs as an instrument for investment into India. This is not a common place of markets; if, for example, a non-resident of the US or of England chooses to invest in an American or English or a German stock, he does not have to hold his investment indirectly through an FII, but can hold it directly in his own name. An FII in India is a superfluous addition created simply to suit the regulatory requirements of SEBI.

FIIs serve no economic purpose but they exist in order to provide SEBI with a bureaucratic layer between a foreign investor and the regulator. It enables SEBI to pretend that it controls foreign investors when in fact SEBI has no control on the ultimate investor. It is a good example of obscuring the true character of foreign investment in India through a non-transparent and expensive set-up. The P-Note is an additional twist in this indirect investment as it enables those who wish to invest in the Indian market to do so without disclosing their identity.
Sub-Accounts The sub account is generally the underlying fund on whose behalf the FII invests. The following entities are eligible to be registered as sub-accounts with a domestic bank, viz. partnership firms, private company, public company, pension fund, investment trust, and individuals.

Broad Based Funds Broad Based Funds means a fund established or incorporated outside India, which has at least twenty investors with no single individual investor holding more than 10% shares or units of the fund. If the fund has institutional investor(s) it shall not be necessary for the fund to have twenty investors. Further that if the fund has an institutional investor holding more than 10% of shares or units in the fund, then the institutional investor must itself be broad based fund.

Need For Foreign Capital

The need of foreign investment/ foreign capital arises due to the following reasons:

Development of basic infrastructure

The development of any economy depends on the available infrastructure in that country. The infrastructure facilities such as Roads, Railways, sea ports, warehouses banking services and insurance services are the prominent players. Due to long gestation period naturally individuals will not come forward to invest in infrastructure industries. Government of India could not able to raise necessary investments. To fill the gap foreign capital is highly suitable
Rapid industrialization

The need for foreign capital arises due to the policy initiatives of the Government to intensify the process of industrialization. For instance the government of India is gradually opening the sectors to foreign capital to expand the industrial sector.

To undertake the initial risk

Many developing countries suffer from severe scarcity of private investors. The risk problem can be diverted to the foreign capitalists by allowing them to invest. As we know the Indians are comparatively risk averse. The same risk can be transferred to foreign investors by allowing their investment where risk is more.

Global imperatives

Globalization is the order of the day. The international agreements between countries are also the reason for the foreign capital. The multinational companies are expanding their presence to many countries; while they are entering into the foreign countries they will bring their capital. The principles of WTO and other regional associations are binding the member countries to allow foreign capital.

Comparative advantage

The variations in the cost of capital like interest rate are also one of the important factors which resulting in approaching foreign capital. For example; Interest rates are high in India compared with developed economies. To reduce the cost of capital, companies/
organizations are now looking for foreign capital. In several countries the interest rates are very low as 1% to 3%, whereas in some countries the interest rates are very high as 8% to 10% per annum.

**To remove the technological gap**

The developing countries have very low level of technology compared to the developed countries. However, these developing countries possess a strong urge for industrialization to develop their economies and to wriggle out of the low level equilibrium trap in which they are caught. This raises the necessity for importing technology from the advanced countries. That technology usually comes with foreign capital when it assumes the form of private foreign investment or foreign collaboration.

**Registered FII's in India**

The Indian capital market opened its doors to foreign investors in 1991. The new industrial policy of the government has initiated many measures to attract foreign capital. The following table highlights the registered FIIs in India during last five year period from 2006 to 2010.
Table 1

No. of FII Registered in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of FIIs Registered</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2006</td>
<td>833</td>
</tr>
<tr>
<td>January 2007</td>
<td>1059</td>
</tr>
<tr>
<td>January 2008</td>
<td>1279</td>
</tr>
<tr>
<td>January 2009</td>
<td>1609</td>
</tr>
<tr>
<td>January 2010</td>
<td>1697</td>
</tr>
</tbody>
</table>

Source www.sebi.gov.in

From the above table it is clear that there is constant growth in the number of registered FIIs in India. In the year 2006 (January, 2006), the number of registered FIIs were 833 only. The same number has been increased to 1697 by the year 2010 (January 2010). The number has been increased by more than 100 per cent. In spite of the global financial crisis the number of registered FIIs has shown a significant increase. Irrespective of the situation in Indian stock markets these FIIs has earmarked their presence. But the investment made by FIIs has experienced drastic decline in the recent past. This is mainly because of the global economic meltdown. Though the number of registered FIIs increased the net investment was not increased proportionately.

Influence of FIIs on Indian Stock Market

The current investments of FIIs is Rs. 2,55,464.40 Crores. This is almost 9% of the total market capitalization. If we explain the things
in simple terms, market pundits often attribute the rally of stock market and fall of stock market to the flow of funds by FIIs. We often hear the terms "FIIs Fuel the Market Run". If we analyze the impacts, then the major impacts are:-

- They increased depth and breadth of the market.
- They played major role in expanding securities business.
- Their policy on focusing on fundamentals of the shares had caused efficient pricing of shares.

These impacts made the Indian stock market more attractive to FIIs and also domestic investors, which involve the other major player MF (Mutual Funds). The impact of FIIs is so high that whenever FIIs tend to withdraw the money from market, the domestic investors become fearful and they also withdraw from market. Indian economy’s growth prognosis remains strong, which, in turn, is attracting major capital inflows from foreign institutional investors (FIIs). The Government opened doors to this class of investors in 1993. The market value of listed Indian equities is estimated at US$ 1.3 trillion out of which FII investments are calculated to be around US$ 200 billion.

According to a report titled ‘India Market Strategy’ by UBS, FII ownership in Indian stocks increased from 15 per cent in the September 2011 quarter to 15.2 per cent in the December 2011 quarter (if BSE 500 is taken as a representative for the overall market). FIIs are keen to harness India’s growth trajectory by making huge investments and strategic moves in the financial markets. Key
statistics, developments, Government’s role and predictions pertaining to the same are discussed hereafter.

**Table 2**

**Senses Value and Net Investment of FII**

<table>
<thead>
<tr>
<th>Years</th>
<th>Sensex Value (Points)</th>
<th>Net Investment of FII</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>3972</td>
<td>6510.9</td>
</tr>
<tr>
<td>2001</td>
<td>3262</td>
<td>12494.8</td>
</tr>
<tr>
<td>2002</td>
<td>3377</td>
<td>3677.9</td>
</tr>
<tr>
<td>2003</td>
<td>5838</td>
<td>35153.8</td>
</tr>
<tr>
<td>2004</td>
<td>6602</td>
<td>42049.1</td>
</tr>
<tr>
<td>2005</td>
<td>9397</td>
<td>41663.5</td>
</tr>
<tr>
<td>2006</td>
<td>13786</td>
<td>40589.2</td>
</tr>
<tr>
<td>2007</td>
<td>20286</td>
<td>80914.8</td>
</tr>
<tr>
<td>2008</td>
<td>9647</td>
<td>-41215.5</td>
</tr>
<tr>
<td>2009</td>
<td>17464</td>
<td>87987.6</td>
</tr>
<tr>
<td>2010</td>
<td>20509</td>
<td>179674.6</td>
</tr>
</tbody>
</table>

Source [www.sebi.gov.in/marketstatistics/fiis](http://www.sebi.gov.in/marketstatistics/fiis)

**FII – Key Statistics**

According to the data released by Securities and Exchange Board of India (SEBI), net investment in equities made by foreign institutional investors (FIIs) stood at Rs 47, 935 crore (US$ 9.34 billion) the financial year ended March 31, 2012. During the reported fiscal, foreign fund houses injected Rs 49, 053 crore (US$ 9.56 billion)
in the debt market taking the collective net investments by FIIs in stocks and bonds to Rs 93,725 crore (US$ 18.26 billion)

- A statement released by the Reserve Bank of India (RBI) has revealed that due to a rise in the core foreign currency assets (FCAs), India’s foreign exchange reserves grew by US$ 862 million to US$ 294.82 billion for the week ended March 16, 2012

- Furthermore, according to data released by SEBI, FIIs invested a little less than US$ 19 billion in corporate debt and debt mutual funds as of February 29, 2012 while their investment in infrastructure has been US$ 2 billion

- FIIs can invest up to US$ 60 billion annually in Indian bonds. In order to deepen the bond market as well as to meet India’s need to raise US$ 1 trillion for infrastructure spending by 2013, the Government has raised these investment limits

- According to the Asia Securities Industry and Financial Markets Association lobby group, overseas funds have invested more than US$ 200 billion (or 17 per cent of the capitalization of India’s equity market), and have injected a substantial amount in Government and corporate debt

- Meanwhile, data from EPFR Global reveals that during the first quarter of 2012, exchange traded funds (ETFs) have participated to the extent of 62 per cent of the total net inflows into India, which is around US$ 1.8 billion. It was way higher than 23 per cent in 2011.
• US-based private equity (PE) firm Warburg Pincus and World Bank affiliate International Finance Corp have collectively invested US$ 50 million in AU Financiers (India) Pvt. Ltd. According to a press statement released, the investment will be majorly used to drive the future growth of the Jaipur-based non-banking finance company’s fund and will also offer certain liquidity to early investors.

• Indivest Pvt. Ltd and a Mauritius-based FII will jointly infuse Rs 500 crore (US$ 97.43 million) into Indian FMCG major Marico Ltd. Marico is waiting for the shareholders’ approval for the preferential allotment of shares to the two entities. Indivest Pvt. Ltd. is a foreign venture capital investor and is an affiliate of Government of Singapore Investment Corporation Pvt. Ltd. that manages Singapore’s foreign reserves.

**Government Initiatives**

In a recent announcement, the RBI has granted its permission to FIIs to invest in primary issuances of companies’ non-convertible debentures (NCDs), provided these papers are scheduled to be listed on the stock exchanges within 15 days of being issued. If the instrument, that is the NCD, does not get listed within 15 days, the foreign investor concerned would have to sell the securities to a domestic investor.

Also, in order to attract several venture capital investors to India, the RBI has granted its nod to foreign venture capital investors to invest in securities through the secondary market and also through private arrangements or purchase from a third party.
Amid the estimates that inflows through qualified foreign investor (QFI) window would be around US$ 50 billion in the Indian stock market over 2012-14, the Government of India has made plans to attract wealthy investors in the Persian Gulf region. The Government has not only lined-up various road shows to sell Indian stocks in the region, but has also relaxed the norms related to international anti-money laundering protocol. The proposed changes are expected to enable investors from the blocs such as the Gulf Coordination Council (GCC) to invest directly through the QFI route. A team from the Ministry of Finance would visit to the UAE, Saudi Arabia, Kuwait, Bahrain and Qatar regarding the same. QFIs are the individuals or organizations, resident in a foreign nation, who are compliant with various anti-money laundering forums.

**Foreign Direct Investment**

Globalization has been a buzzword for India Inc. The country enjoyed the second highest growth in foreign direct investment (FDI) inflows in the world during 2011, which eventually generated over two lakh jobs. The statistics mirror international investors’ robust confidence in India’s growth story, thus ensuring that the country sustains its global sheen. According to the Ernst & Young (E&Y)’s 2012 India Attractiveness Survey, investors view India as an attractive investment destination. India stands as the fourth most attractive destination for FDI in the survey’s global ranking. Domestic market’s high potential driven by an emerging middle class, cost competitiveness
and access to a highly qualified workforce are the major factors that has been the magnet force to attract global investors.

**Key Statistics**

- FDI inflow rose by 55 per cent to US$ 28.4 billion during April-February 2011-12, while the cumulative amount of FDI equity inflows from April 2000 to February 2012 stood at US$ 246.6 billion, according to the latest data released by the Department of Industrial Policy and Promotion (DIPP).

- The sectors which attracted huge FDI inflows during the 11-month period of 2011-12 are: services (US$ 5.05 billion), pharmaceuticals (US$ 3.21 billion), telecom (US$ 1.99 billion), construction (US$ 2.52 billion), power (US$ 1.61 billion) and metallurgical industries (US$ 1.76 billion).

- Mauritius infused highest inflows worth US$ 9.42 billion, followed by Singapore (US$ 5.07 billion), Japan (US$ 2.86 billion), UK (US$ 2.75 billion), Germany (US$ 1.54 billion), Netherlands (US$ 1.21 billion) and Cyprus (US$ 1.42 billion).

- According to E&Y’s recent transactions quarterly report, 202 mergers and acquisitions (M&A) deals worth US$9.4 billion were recorded during January-March 2012. On account of domestic consolidation, an increase of 22 per cent was witnessed in terms of number of deals, while the deal value enhanced 4.5 times over the October-December 2011 quarter. There were about 126 domestic deals which accounted for almost 63 per cent of the total reported deals and contributed 88.4 per cent of the total disclosed deal
value. The US remained the most acquisitive nation recording 10
deals worth US$ 24.5 million, followed by Japan with seven deals
worth US$ 352 million.

- According to global consultancy firm Grant Thornton, India Inc
  witnessed 118 private equity (PE) deals worth US$ 2.01 billion
during the first quarter of 2012. Sectors like e-commerce (Flipkart
raising PE Funding of US$ 150 million) and domestic sectors
focused on Indian consumptions story are attractive to investors
(Godrej PE fund raise US$ 137 million from Temasek).

- According to the Reserve Bank of India (RBI)'s weekly statistical
  supplement, India's foreign exchange reserves or forex reserves
  stood at US$ 292.92 billion for the week ended April 6, 2012.
  Foreign currency assets aggregated to US$ 258.65 billion and the
  value of gold reserves stood at US$ 27.02 billion for the week. The
  value of special drawing rights (SDRs) was calculated at US$ 4.43
  billion, and India's reserves with the International Monetary Fund
  (IMF) came out to be US$ 2.81 billion.

**Important Developments**

India received FDI worth US$ 2.21 billion in February 2012,
registering an annual growth of 74 per cent. Cumulative inflows for
April-February 2011-12 stood at US$ 28.40 billion. Recently, the
Indian government has cleared 22 FDI proposals amounting to Rs
586.137 crore (US$ 112.5 million). The approved major investments,
that consulted with Foreign Investment Promotion Board (FIPB) as
well, are enlisted below:
• Shantha Biotechnic’s proposal of Rs 514 crore (US$ 97.26 million) to increase its foreign equity in brown field pharmaceutical sector to facilitate activities of research, development, manufacturing and marketing of bio-tech products and other bio-generics.

• Mahindra and Mahindra’s proposal of Rs 25.99 crore (US$ 4.92 million) to set up a joint venture (JV) for developing, manufacturing and providing service support for radar systems and several defense electronic systems.

    Springer Editorial Services’ Rs 12.87 crore (US$ 2.43 million) proposal to increase foreign equity up to 100 per cent for publishing services, content development, content management and content outsourcing.

In a bid to enhance its foothold in India, leading German engineering and services company Bilfinger Berger has announced that it would infuse over EUR 100 million (US$ 131.56 million) in the South-Asian nation in near future. Recent acquisitions of the Surat-based Neo Structo Construction Ltd and Spetech Plant Equipments Private Ltd further strengthen the company’s intentions.

    Seoul-headquartered, South Korean Government-owned Woori Bank has launched its operations in India by opening a branch in Chennai. With an initial capital of US$ 35 million, the bank intends to provide assistance to Korean companies. It would focus on localization and Indian customers at later stages.

    Japan’s Mitsubishi Pencil has bought 13.5 per cent stake in India’s Linc Pen & Plastics for around Rs 20 crore (US$ 3.78 million).
The foreign company plans to produce pens in Linc's facilities for its global market and may also launch its range of office stationery in India.

Marking its debut in Asian investments, Trafigura Pte Ltd has acquired 24 per cent stake in Nagarjuna Oil Corporation Limited (NOCL). Trafigura, the Singapore-based unit of the world's third-largest crude oil trader, Netherlands' Trafigura Beheer BV, will invest Rs 650 crore (US$ 123 million) for the stake in an oil refinery which is being set up by NOCL in Tamil Nadu.

**Policy Initiatives**

A report by DIPP states that 'India has already emerged as one of the most preferred destinations for foreign investment and this eminent position will need to be sustained.' The Indian government is therefore, doing every bit to ensure this. To give an impetus to the FDI space in India, the Government is actively contemplating over allowing foreign airlines to pick 49 per cent stake in domestic ones while proposal for allowing 51 per cent FDI in multi-brand retail is continuously being worked upon. Moreover, the government has allowed overseas investment in bee-keeping and share-pledging for raising external debt and has also relaxed the FDI regulations relating to the construction of old-age homes and educational institutions. Working towards a recommendation by RBI, the Government is expected to broaden the list of Non-Banking Financial Companies (NBFCs) activities that can get FDI. The new list is likely to be included in the FDI press note which would get applicable for 2012-
13. As of now, 18 NBFC activities are entitled for FDI. The Government of Kerala has also launched a campaign to attract foreign investment in the state. The authorities have already streamlined the process of clearing investment proposals while the Government has envisaged a pro-active industrial and commercial policy that would transform the state into a vibrant entrepreneurial society with speedier and inclusive growth.

**Future Outlook**

The Indian government intends to increase India’s share in the global FDI space from 1.3 per cent in 2007 to 5 per cent by 2017 by relaxing and un-complicating the FDI regime in the country. Industry experts also believe that M&A activities in India would intensify on the back of strengthening stock markets and better availability of finance options.

**FDI in India**

One of the most striking developments during the last two decades is the spectacular growth of FDI in the global economic landscape. This unprecedented growth of global FDI in 1990 around the world make FDI an important and vital component of development strategy in both developed and developing nations and policies are designed in order to stimulate inward flows. In fact, FDI provides a win–win situation to the host and the home countries. Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. The ‘home’ countries want to take the advantage of the vast markets opened by industrial
growth. On the other hand the 'host countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. Moreover, the paucity of all types of resources viz. financial, capital, entrepreneurship, technological know-how, skills and practices, access to markets abroad in their economic development, developing nations accepted FDI as a sole visible panacea for all their scarcities. Further, the integration of global financial markets paves ways to this explosive growth of FDI around the globe.

The historical background of FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era of Britain in India. However, researchers could not portray the complete history of FDI pouring in India due to lack of abundant and authentic data. Before independence major amount of FDI came from the British companies. British companies setup their units in mining sector and in those sectors that suits their own economic and business interest. After Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet U.K. remained the most dominant investor in India. Further, after Independence issues relating to foreign capital, operations of MNCs, gained attention of the policy makers. Keeping in mind the national interests the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange resources. The first Prime Minister of India considered foreign investment as
“necessary” not only to supplement domestic capital but also to secure scientific, technical, and industrial knowledge and capital equipments. With time and as per economic and political regimes there have been changes in the FDI policy too. The industrial policy of 1965, allowed MNCs to venture through technical collaboration in India. However, the country faced two severe crisis in the form of foreign exchange and financial resource mobilization during the second five year plan (1956-61). Therefore, the government adopted a liberal attitude by allowing more frequent equity participation to foreign enterprises, and to accept equity capital in technical collaborations. The government also provides many incentives such as tax concessions, simplification of licensing procedures and de-reserving some industries such as drugs, aluminum, heavy electrical equipments, fertilizers, etc in order to further boost the FDI inflows in the country. This liberal attitude of government towards foreign capital lures investors from other advanced countries like USA, Japan, and Germany, etc. But due to significant outflow of foreign reserves in the form of remittances of dividends, profits, royalties etc, the government has to adopt stringent foreign policy in 1970s. During this period the government adopted a selective and highly restrictive foreign policy as far as foreign capital, type of FDI and ownerships of foreign companies was concerned. Government setup Foreign Investment Board and enacted Foreign Exchange Regulation Act in order to regulate flow of foreign capital and FDI flow to India. The soaring oil prices continued low exports and deterioration in Balance of Payment position during 1980s forced
the government to make necessary changes in the foreign policy. It is during this period the government encourages FDI, allow MNCs to operate in India. The government introduces reforms in the industrial sector, aimed at increasing competency, efficiency and growth in industry through a stable, pragmatic and non-discriminatory policy for FDI flow. In fact, in the early nineties, Indian economy faced severe Balance of payment crisis. Exports began to experience serious difficulties. There was a marked increase in petroleum prices because of the gulf war. The crippling external debts were debilitating the economy. India was left with that much amount of foreign exchange reserves which can finance its three weeks of imports. The out flowing of foreign currency which was deposited by the Indian NRI’s gave a further jolt to Indian economy. The overall Balance of Payment reached at Rs. (-) 4471 crores. Inflation reached at its highest level of 13%. Foreign reserves of the country stood at Rs.11416 crores. The continued political uncertainty in the country during this period adds further to worsen the situation. As a result, India’s credit rating fell in the international market for both short- term and long-term borrowing. All these developments put the economy at that time on the verge of default in respect of external payments liability. In this critical face of Indian economy the then finance Minister of India Dr. Manmohan Singh with the help of World Bank and IMF introduced the macro – economic stabilization and structural adjustment program. As a result of these reforms India open its door to FDI inflows and adopted a more liberal foreign policy in order to restore the confidence of foreign
investors. Further, under the new foreign investment policy Government of India constituted FIPB (Foreign Investment Promotion Board) whose main function was to invite and facilitate foreign investment through single window system from the Prime Minister’s Office. The foreign equity cap was raised to 51 percent for the existing companies. Government had allowed the use of foreign brand names for domestically produced products which was restricted earlier. India also became the member of MIGA (Multilateral Investment Guarantee-Agency) for protection of foreign investments.

Government lifted restrictions on the operations of MNCs by revising the FERA Act 1973. New sectors such as mining, banking, telecommunications, highway construction and management were open to foreign investors as well as to private sector. It is a well-known fact that due to infrastructural facilities, less bureaucratic structure and conducive business environment China tops the chart of major emerging destination of global FDI inflows. The other most preferred destinations of global FDI flows apart from China are Brazil, Mexico, Russia, and India. The annual growth rate registered by China was 15%, Brazil was 84%, Mexico was 28%, Russia was 62%, and India was 17% in 2007 over 2006. During 1991-2007 the compound annual growth rate registered by China was 20%, Brazil was 24%, Mexico was 11%, Russia was 41% (from 1994), and India was 41%. India’s FDI need is stood at US$ 15 billion per year in order to make the country on a 9% growth trajectory (as projected by the Finance Minister of India in the current budget. Economic reforms taken by Indian
government in 1991 makes the country as one of the prominent performer of global economies by placing the country as the 4th largest and the 2nd fastest growing economy in the world. India also ranks as the 11th largest economy in terms of industrial output and has the 3rd largest pool of scientific and technical manpower. Continued economic liberalization since 1991 and its overall direction remained the same over the years irrespective of the ruling party moved the economy towards a market-based system from a closed economy characterized by extensive regulation, protectionism, public ownership which leads to pervasive corruption and slow growth from 1950s until 1990s. In fact, India’s economy has been growing at a rate of more than 9% for three running years and has seen a decade of 7 plus per cent growth. The exports in 2008 were $175.7 bn and imports were $287.5 bn. India’s export has been consistently rising, covering 81.3% of its imports in 2008, up from 66.2% in 1990-91. Since independence, India’s BOP on its current account has been negative. Since 1996-97, its overall BOP has been positive, largely on account of increased FDI and deposits from Non-Resident Indians (NRIs), and commercial borrowings. The fiscal deficit has come down from 4.5 per cent in 2003-04 to 2.7 per cent in 2007-08 and revenue deficit from 3.6 per cent to 1.1 per cent in 2007-08. As a result, India’s foreign exchange reserves shot up 55 per cent in 2007-08 to close at US $309.16 billion – an increase of nearly US $110 billion from US $199.18 billion at the end of 2006-07. Domestic saving ratio to GDP shot up from 29.8% in 2004-05 to 37.7% in 2007-08. For the
first time India’s GDP crossed one trillion dollars mark in 2007. As a consequence of policy measures (taken way back in 1991) FDI in India has increased manifold since 1991 irrespective of the ruling party over the years, as there is a growing consensus and commitments among political parties to follow liberal foreign investment policy that invite steady flow of FDI in India so that sustained economic growth can be achieved. Further, in order to study the impact of economic reforms and FDI policy on the magnitude of FDI inflows, quantitative information is needed on broad dimensions of FDI and its distribution across sectors and regions.

Traditionally, developing countries relied on foreign direct investment to supplement domestic saving and bring in new technology, skills and introduction of new products. In our country it had been more or less static at about Rs.110 crores till 1987 when the government took major steps towards attracting foreign capital as a better alternative to borrowing with a promise of fast track clearance. The impact was felt in 1988 when foreign investment rose to Rs. 239 crores and in 1989 to Rs. 316 crores. Foreign investment declined in 1990 by 59 percent from the high of 1989 on account of political uncertainty. Our foreign investment and restrictive trade policy, has resulted in a very low level of foreign direct investment in comparison with that of South Asian countries. The liberalization of the Indian economy and emphasis on market forces involves the raising of large proportion of resources required for investment in public and private sectors from the capital market. As the demand for funds in the
capital market increases, the flow of saving will go up only if the efficiency of the two components of the capital market, the primary, (new issues) and secondary (stock exchanges), improves. They should become more transparent and range of risk return combination widened and liquidity enhanced. It has also to be recognized that transfer of technology, export promotion and access to foreign exchange can be achieved only by a greater reliance on market mechanism. Trade and foreign investment are the two instrument that integrate domestic economy with international markets. With greater reliance on market mechanism, barriers to trade and foreign direct investment can be lowered. Total global foreign direct investment in 1996 is estimated at $ 349 billion of which developing countries received about $ 129 billion. Most of the foreign direct investments were in developed countries themselves. Investment by enterprises based in Hong Kong accounted for much of the total of $ 42 billion in China; and the total stock of foreign direct investment at end 1995 was $ 110 billion. The shares of four major industrial countries were, USA $ 712 billion, UK $ 312 billion, Japan $ 298 billion and Germany $ 428 billion. To presents the foreign investment in flows during the period 1991-92 and 2001-2002. The spurt in foreign investment registered first in 1993-94 at $ 4.2 billion continued in 1994-95 to $ 4.9 billion and to $ 5.5 billion in 1996-97. During April-December 1996 it amounted to $ 4 billion. Internal factors such as favorable growth prospects, positive market return differential on investment as compared to industrial countries and stability of exchange rate
buoyed up the inflows. The major external factor aiding inflows into India was the under valuation of Indian Stocks and now the Mauritius factor which is a tax haven from which to invest.

The foreign investment inflows have been meeting more than half of the financing needs of India’s external account. After a sharp setback in the aftermath of South East Asian crisis in 1998-99, foreign investment inflows, made a smart recovery in 1999-2000 and the position, was broadly maintained in 2000-01. Total foreign investment, comprising direct and portfolio, which averaged about US $ 5.39 billion during the four years ended 1997-95, fell sharply to US $ 2.10 billion in 1998-99, as a full out of the Asian Crisis. In 1999-2000, they recovered to US $ 5.18 billion and the recovery was maintained in 2000-01, with the total inflow of US $ 5.10 billion.

The source and direction of FDI remained, by and large, unchanged during the 1990s. Companies registered in Mauritius and the US were the principal source of FDI into India during 2000-01, followed by Japan and Germany. The bulk of FDI was enhanced into computer hardware and software, engineering industries, services, electronics and electrical equipment; chemical and allied products and food and dairy products.

**FDI v/s FII**

Both FDI and FII is related to investment in a foreign country. FDI or Foreign Direct Investment is an investment that a parent company makes in a foreign country. On the contrary, FII or Foreign Institutional Investor is an investment made by an investor in the
markets of a foreign nation. In FII, the companies only need to get registered in the stock exchange to make investments. But FDI is quite different from it as they invest in a foreign nation. The Foreign Institutional Investor is also known as hot money as the investors have the liberty to sell it and take it back. But in Foreign Direct Investment, this is not possible. In simple words, FII can enter the stock market easily and also withdraw from it easily. But FDI cannot enter and exit that easily. This difference is what makes nations to choose FDI more than then FIIs. FDI is more preferred to the FII as they are considered to be the most beneficial kind of foreign investment for the whole economy specific enterprise. It aims to increase the enterprises capacity or productivity or change its management control. In an FDI, the capital inflow is translated into additional production. The FII investment flows only into the secondary market. It helps in increasing capital availability in general rather than enhancing the capital of a specific enterprise. The Foreign Direct Investment is considered to be more stable than Foreign Institutional Investor. FDI not only brings in capital but also helps in good governance practices and better management skills and even technology transfer. Though the Foreign Institutional Investor helps in promoting good governance and improving accounting, it does not come out with any other benefits of the FDI. While the FDI flows into the primary market, the FII flows into secondary market. While FIIs are short-term investments, the FDI are long term. 1. FDI is an investment that a parent company makes in a foreign country. On the
contrary, FII is an investment made by an investor in the markets of a foreign nation. 2. FII can enter the stock market easily and also withdraw from it easily. But FDI cannot enter and exit easily. 3. Foreign Direct Investment targets a specific enterprise. The Foreign Direct Investment is considered to be more stable than Foreign Institutional Investor.

**Why FIIs Prefer India to China?**

India’s attractiveness as a destination for foreign investment is a relatively recent phenomenon, barely a few years old. As a result of the global economic recession and the consequent shrinking of the developed economies of North America, Western Europe and Japan during 2009, the inflows of foreign direct investment (FDI) to this country are almost certainly going to come down in the immediate future, as would investments in shares. The terror attack on Mumbai, India’s financial and commercial capital is also likely to exacerbate the downtrend in the short run. But there is reason to be optimistic about the medium-term future- if the economy starts reviving by around the end of 2009, India will start attracting foreign investment again. The overall rate of growth of the country’s economy would slow down significantly in 2009-10, from an estimated 6.5-7 per cent in the current fiscal year ending March 2009 to perhaps 5.5-6 per cent. That would indeed be a sharp deceleration in comparison to the near-nine per cent growth that characterized the Indian economy for four years in a row from 2003-04 onwards.
Despite the slowdown, India will remain one of the fastest growing economies in the world with a large internal market, making it an attractive destination for FDI as well as for foreign institutional investors (FIIs) after the capital markets revive, hopefully in the not-too-distant future.

It is often pointed out that China has attracted foreign investment inflows that are at least five times higher than those of India. This proportion could be higher. But the official figures of FDI put out by the Chinese government are not strictly comparable with the statistics compiled by Indian authorities. A study conducted by the International Monetary Fund in 2004 indicated that the manner in which China compiled its figures of foreign investment was not in tune with "international best practices". Though considerably higher than India, the IMF calculated that total inflow of FDI to China in 2003 comprised two per cent of that country’s gross domestic product against 1.7 per cent in the case of India — a comparison that is quite flattering when one considers the fact that the Indian economy was considered particularly insular till the early-1990s. After economic liberalization started in 1991, FDI and FII inflows did not pick up for nearly a decade. The government’s department of industrial policy and promotion estimates the cumulative total inflow of FDI in the form of equity capital to be under $100 billion between August 1991 and September 2008 — $96.43 billion to be precise. Of this amount, two-thirds ($62.51 billion) had flowed in between April 2000 and March 2008. Between April and September 2008, the inflow of FDI in the
form of equity capital stood at $17.21 billion, a jump of 137 per cent over the inflow of $7.25 billion witnessed during the corresponding six months of 2007.

It is more or less certain that the second half of 2008-09 (October to March) will see a sharp fall in FDI inflows on account of the worldwide recession. But the overall climate for FDI in India is currently far better than what it was till even a couple of years ago. The total annual inflow of FDI had varied between $4 billion and $6 billion between 2000-01 and 2004-05. The following year, 2006-07, there was a surge in the inflow of FDI by nearly 150 per cent to over $22 billion. This figure jumped by nearly 50 per cent the next year, 2007-08, to touch a record high of almost $32.5 billion. This amount would have been exceeded had it not been for the meltdown on Wall Street that unleashed a financial tsunami across the globe from September. But there’s a silver lining amid the dark clouds of recession as far as India is concerned. FDI inflows are unlikely to slow down to the extent FII inflows have. Portfolio investments are more often than not "hot" money that goes out as fast as it comes into the country. During the calendar year 2007, FIIs had jumped in over $18 billion into India’s stock exchanges. These same investors scooted as their principals got swept away by the US financial crisis — they had pulled out around $15 billion from the country between the middle of January and the end of November 2008. Consequently, the exchange rate of the rupee has plummeted by around a quarter. Speculators in the share market may not return in a hurry. Their fingers have been
badly burnt. Thankfully, the FDI story is far from calamitous. Unlike FII money that rushes in and out, FDI inflows are in the form of assets that remain in the country (even when the money has been used to purchase existing shares in companies) for quite a while. In a recent issue, London’s Economist (December 13-19, 2008), which has never exactly been a great admirer of India, observed that in "two respects... India has big advantage over China in coping with an economic slowdown". India has "all-too-extensive experience and it has a political system that can cope with disgruntlement without existential doubts," the publication editorialized, before patronizingly adding "India pays an economic price for its democracy". For foreign investors, that’s precisely why India will continue to remain attractive, despite terrorism, inequality and anarchy. That’s the good news in an otherwise gloomy economic environment.

Developed economies consider FDI as an engine of market access in developing and less developed countries vis-à-vis for their own technological progress and in maintaining their own economic growth and development. Developing nations looks at FDI as a source of filling the savings, foreign exchange reserves, revenue, trade deficit, management and technological gaps. FDI is considered as an instrument of international economic integration as it brings a package of assets including capital, technology, managerial skills and capacity and access to foreign markets. The impact of FDI depends on the country’s domestic policy and foreign policy. As a result FDI has a wide range of impact on the country’s economic policy. In order to
study the impact of foreign direct investment on economic growth, two models were framed and fitted. The foreign direct investment model shows the factors influencing the foreign direct investment in India. The economic growth model depicts the contribution of foreign direct investment to economic growth. India’s diverse economy attracts high FDI inflows due to its huge market size, low wage rate, large human capital (which has benefited immensely from outsourcing of work from developed countries).

In the present decade India has witnessed unprecedented levels of economic expansion and also seen healthy growth of trade. GDP reflects the potential market size of Indian economy. Potential market size of an economy can be measured with two variables i.e. GDP (the gross domestic product) and GNP (the gross national product). GNP refers to the final value of all the goods and services produced plus the net factor income earned from abroad. The word ‘gross’ is used to indicate the valuation of the national product including depreciation. GDP is an unduplicated total of monetary values of product generated in various kinds of economic activities during a given period, i.e. one year. It is called as domestic product because it is the value of final goods and services produced domestically within the country during a given period i.e. one year. Hence in functional form GDP= GNP-Net factor income from abroad. In India GDP is calculated at market price and at factor cost. GDP at market price is the sum of market values of all the final goods and services produced in the domestic territory of a country in a given year. Similarly, GDP at factor cost is equal to the
GDP at market prices minus indirect taxes plus subsidies. It is called GDP at factor cost because it is the summation of the income of the factors of production. Further, GDP can be estimated with the help of either (a) Current prices or (b) constant prices. If domestic product is estimated on the basis of market prices, it is known as GDP at current prices. On the other hand, if it is calculated on the basis of base year prices prevailing at some point of time, it is known as GDP at constant prices. In fact, in a dynamic economy, prices are quite sensitive due to the fluctuations in the domestic as well as international market. In order to isolate the fluctuations, the estimates of domestic product at current prices need to be converted into the domestic product at constant prices. Any increase in domestic product that takes place on account of increase in prices cannot be called as the real increase in GDP. Real GDP is estimated by converting the GDP at current prices into GDP at constant prices, with a fixed base year. In this context, a GDP deflator is used to convert the GDP at current prices to GDP at constant prices. The present study uses GDP at factor cost (GDPFC) with constant prices as one of the explanatory variable to the FDI inflows into India for the aggregate analysis. Gross Domestic Product at Factor cost (GDPFC) as the macroeconomic variable of the Indian economy is one of the pull factors of FDI inflows into India at national level. It is conventionally accepted as realistic indicator of the market size and the level of output. There is direct relationship between the market size and FDI inflows. If market size of an economy is large than it will attract higher FDI inflows and vice versa i.e. an economy with higher GDPFC will attract more FDI inflows. The relevant data on
Chapter 2  

GDPFC have been collected from the various issues of Reserve bank of India (RBI) bulletin and Economic Survey of India.

**Benefits of foreign investment and reserves through FII participation**

**Benefits to economy**

The research will definitely help the govt. in considering for the modifications and relaxation in the policies to attract more FII and to develop more stability in existing FIIs thereby boosting the economic growth.

**Benefits to the prospective investors**

The research will also help students who are willing to make their future in retail industry as employees in the stores by informing them about the different jobs offered by the Indian retail industry both on the and non-managerial and managerial fronts.

**Benefits to domestic shareholders**

This research will also provide valuable information to the domestic shareholders to sustain and mitigate the loss arising due to the movement of large amount of money from the stock market by the FIIs. As the Indian stock market sentiments are affected by the investment move of FIIs. There is a saying that “Indian stock market blooms when FIIs are positive and suffers when FIIs step back”.

**Benefits to firm and industry**

As the majority proportion of stock market in India is under control of FIIs, the research will be useful for the firm and industry to take positive steps to control the prices to their stock.
Factors Affecting Growth of FII in India

Infrastructural hassles The rapid economic growth of the last few years has put heavy stress on India’s infrastructural facilities. The projections of further expansion in key areas could snap the already strained lines of transportation unless massive programs of expansion and modernization are put in place. Problems include power demand shortfall, port traffic capacity mismatch, poor road conditions (only half of the country’s roads are surfaced), low telephone penetration (1.4% of population).

Diverse market

The Indian market is widely diverse. The country has 17 official languages, 6 major religions, and ethnic diversity as wide as all of Europe. Thus, tastes and preferences differ greatly among sections of consumers.

Therefore, it is advisable to develop a good understanding of the Indian market and overall economy before taking the plunge. Research firms in India can provide the information to determine how, when and where to enter the market. There are also companies which can guide the foreign firm through the entry process from beginning to end-performing the requisite research, assisting with configuration of the project, helping develop Indian partners and financing, finding the land or ready premises, and pushing through the paperwork required.

Lack of enthusiasm among investors

The reason being, after independence from Britain 50 years ago, India developed a highly protected, semi-socialist autarkic economy.
Structural and bureaucratic impediments were vigorously fostered, along with a distrust of foreign business. Even as today the climate in India has seen a sea change, smashing barriers and actively seeking foreign investment, many companies still see it as a difficult market. India is rightfully quoted to be an incomparable country and is both frustrating and challenging at the same time. Foreign investors should be prepared to take India as it is with all of its difficulties, contradictions and challenges.

**Global financial crisis**

When the year 2007 was drawing to a close most of the Indian investors who had invested in India were very happy. Bombay’s stock index was hovering around 21000 giving more than 40% return in a span of just 6 months. This attributed to many theories like the ‘Decopulation theory’ according to which Indian markets are independent from the US market. But then things took an ugly turn in 2008. The Global Financial Crisis which had spilled over from the previous year, started to wreak havoc in the global markets. Many prominent organizations like the Bears & Sterns, the Lehmann Brothers etc. had to shut shop because of the losses faced by them. Closer to home, our banks did not face a huge impact because of stronger banking regulations and lesser exposure in the US and European Markets. But our industries are now facing a major slowdown as our economy is highly dependant on the Global markets especially the US and the Europe. There has been a significant decline in the industrial production numbers, our export figures and also in the profitability of
many Indian Companies leading to a slower than usual growth of our GDP. Repercussions of this global turmoil had a major impact on our stock market. The FIIs had removed nearly $12 Billion from our stock market this year to reduce their exposure. This has lead to more than 50% reduction of value on the Bombay stock index, which is now hovering around the 9000 mark. To add on to the woes, at the start of this year the oil prices started climbing steadily to dizzy levels. At one time i.e., around mid of this year oil prices were around $ 150 per barrel. This led to an increase in the fuel pricing, pushing our inflation numbers to around 13% for sometime.

Though now the oil prices have gone below $50 a barrel and the inflation cooling down to below 8%, the short-term outlook looks very bleak. The RBI has been taking a series of steps so that recession doesn’t hit Indian shores by its monetary and fiscal policies. It has been trying to reduce various rates to stimulate domestic demand and there are reasons to believe that this will continue doing so for the next fiscal.

**Terrorism**

The year 2008 has been one of the bloodiest years in the recent times even though we have not waged a formal war. For the past 2 decades we have been battling militants waging a proxy war in many parts of our country for many reasons, be it Kashmir, northeast or naxals. According to estimates done by various organizations, more than 2500 people have been killed because of terrorist attacks, which is next only to Iraq in this region. These militants have become very
tech savvy in executing their attack using many everyday tools like the Google maps, VOIP phones etc.

Despite all this, our governments have failed to act or address the fundamental problems that lead to terrorism. We can just hope that in the coming years they would take some steps to contain these before they hinder our growing economy. 2008 is drawing to an end and one hopes that this New Year brings about some kind of positive cheer and hope, though the above problems are threatening to become graver by each passing day.

**Road Ahead**

The Government of India projects that QFIs would invest US$ 50- US$ 75 billion in India’s equity and bond markets. In order to broaden the investor base in markets and enhance the set of non-resident portfolio investors, QFIs were given permission to invest in Indian equity markets from January 1, 2012. Furthermore, G-Chokkalingam, Executive Director and CIO, Centrum Wealth Management, believes that Indian markets would witness record inflows, probably to the extent of US$ 30 billion, by FIIs in 2012. Such positive forecasts are being made owing to monetary expansions in the west and considering that India would remain the second-fastest growing economy in the world.
References

- A.T. Kearney’s (2007): Global Services Locations Index”.
- Alhijazi, Yahya Z.D (1999): “Developing Countries and FII”.

• Dexin Yang (2003): “Foreign Direct Investment from Developing Countries: A case study of China’s Outward Investment”.