HOW FII AND FDI AFFECT THE CAPITAL MARKET?

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ABSTARCT

Major reforms were observed in Indian Capital Market in during 1990. Several steps were taken for modernising and developing the working structure of stock exchange. From establishment of Security Exchange Board of India to setting up of credit agencies followed by growth of derivative transactions. Foreign Investment Policies in India has always played a pivotal role in developing economic growth as well as providing immense opportunities to every individual. It has always been observed that the main source of Industrialization and development in modern tools are because of Foreign Institutions. Since 1947 it is the Foreign Investment Policies that subjugate the Capital market in India. Post- Liberalization there were several changes observed in ownership, majorly the institutional investors increased their holding in private sector management that control companies' segment. Corporate ownership in India is concentrated in the hands of domestic individuals, multinational parents or promoters' group. Towards the end of 1980's India was facing a Balance of Payment crisis due to unsustainable borrowing and high expenditure. Balance of Payment includes the current market, the capital market and the financial market. The Balance of payment crisis threatened the International credibility of the country. The aim of this Research Paper is to understand the concept of capital market reforms and the various changes in ownership structure after liberalization.

Key Words- *Liberalization, Foreign Institutions, Capital market, Credit agencies, Ownership.*

HOW FII AND FDI AFFECT THE CAPITAL MARKET?

Foreign Direct Investment (FDI) plays a pivotal role in the development of countries, it is both for developed and developing countries. FDI is the Foreign Direct Investment not only provides access to Foreign Investment but also provides the best possible method or technology available. From various modernized methods for a novelty cause or innovation. In this hastening world with passionately curious humans, what everyone needed is speeding up economic growth. Many types of research have emphasized the value and essence of FDI in economic growth. Keeping this into consideration Government has led several guidelines and built various policies for an accessible and engrossing FDI. Now when it comes to FDI another well-heard term is Foreign Institutional Investor (FII), these are investors or investment funds who invest in assets registered in a foreign country or not in the registered headquarters. In short, we can say that these are the outside entities investing in one's nation. These are incorporated outside one's own country.

WHY FOREIGN DIRECT INVESTMENT IS REQUIRED IN THE FIELD OF ECONOMIC GROWTH

Foreign Direct Investment (FDI) is essential in the development of countries and especially in their economic growth. It not restricted to one country. It is accessible across the whole world that is the best part of it which makes it more consummate in economic rate. It is considered to be superlative because of its modernized technology indulged and also it provides some complementary tools for some quintessential results. Overall this is something really unique and impeccable at the same place. The growth and access of FDI are totally based on the government policies and the barriers built by the Governments. If there are any barriers prohibiting the access of FDI in any country then it may degrade the FDI as well as the GDP of the country. The FDI gives immense opportunities to the Indian economy. From developing global managerial practices and skills to economic growth and stability. FDI is always effective a beneficial for the country.

FOREIGN INSTITUTIONAL INVESTORS (FDI): MEANING

Foreign Institutional Investors are those who are incorporated outside the country and chose to invest in an asset that is registered outside the country. Or we can say that these are investors not from India but investing in Indian assets, which identifies them as Foreign Institutional Investors.

FOREIGN DIRECT INVESTMENT AND FOREIGN PORTFOLIO INVESTMENT: HOW BOTH ARE DIFFERENT FROM EACH OTHER?

Foreign Direct Investment (FDI) is an investment by an individual or firm in another country or in a foreign country. FDI is normally taken by MNCs or Venture capital firms as it requires a higher degree of investment. Also, FDI is a long-term investment and they work for the investment of the foreign country specifically. These are direct investments in a foreign country. The whole process of investment is quite difficult.

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Examples

Flipkart is considered to be an FDI investment. Since May 18, 2018, Walmart acquired a 77% stake.

VM ware invested in India in 2018, the investment was estimated at about 2 billion by 2023.

International Finance (IFC) known as the Investment hand of World Bank Group, is intending to invest around USD 6 billion in India by 2020.

Whereas Foreign Portfolio Investment is the investment in securities or financial assets incorporated in another country. It is not a type of direct investment. The motive behind the investment is to get a quick return after the investment in the stock market of a foreign country. It includes Foreign Institutional Investors.

This type of investment is not stable has is not that efficient in investment. There are capital inflows that occur in the process of investment to a foreign country. The whole process is not that difficult.

These are normally 2 types of ways in which investment can be done in foreign countries.

WHAT ARE FOREIGN INSTITUTIONAL INVESTORS

These are generally investments in the foreign markets by companies that invest in countries but don't belong to that particular country. It includes Mutual Funds, Hedge funds, Insurance funds, and also pension funds. It emphasizes more on stock markets. It ensures development in Capital but not in economic growth.

Example- Goldman Sachs, etc.

FII is flexible whereas FDI is stable. It does not give lots of opportunities but it gives quick profit in short term. It is for those who intend to have profit in a short time span.

DIFFERENCE BETWEEN FOREIGN DIRECT INVESTMENT (FDI) AND FOREIGN INSTITUTIONAL INVESTMENT/INVESTORS (FII)

FDI is an investment done in foreign countries by the parent company? Whereas FII is an investment in the foreign market for a short-term profit.

The Investment is long-term in the case of FDI, whereas it is short-term investment in the case of FII.

FDI is not that flexible in regards to the stock market as compared to FII.

In FDI the investor has control over the companies in which it invested. In the case of FII, it is not a similar case.

Foreign Direct Investment (FDI) is generally an investment done by the developed country to the developing countries. There are no such criteria in Foreign Institutional Investments (FII), in this, the investment is done by one country in another country.

Foreign Direct Investments (FDI) promotes economic growth as well as many more opportunities to the people of the country starting from Job opportunities to other development towards the individual. Whereas Foreign Institutional Investment/ Investors don't promote economic growth.

Foreign Direct Investment (FDI) emphasizes increasing the GDP of a country, whereas Foreign Institutional Investors/Investments promotes an increase in Capital of a Nation.

CONCLUSION

For s superlative economic growth, one required an efficient and working investment method. Foreign Direct Investment (FDI) and Foreign Institutional Investors (FII) are some of them. These are totally two different concepts. They both have several pros and cons. Majorly Foreign Direct Investment is preferred over Foreign Institutional Investments/ Investors as it emphasizes economic growth whereas FII promotes growth in the capital of a country. These Investments are totally modernized and not only help in economic growth but also help in healthy International relations among countries. It is something that encourages development and growth all over the world and is not partial in nature for any specific country. FDI and FII promote unity among countries as it emphasizes working together. This promotes peace and togetherness among countries which is a necessity to snub unwanted chaos and to prevent distortion. It gives immense opportunities to all the countries to develop economically and o become more powerful and supreme. Foreign Direct Investment is a long-term goal whereas Foreign Institutional Investment is short-term profit. Both provide the best tools for economic growth. They not only improve bonding in-between countries but also provide some techniques which develop the human mind and make our country to pave towards modernization.