

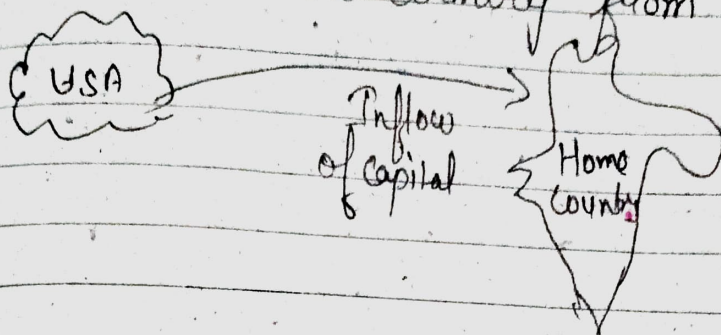
Unit-5 International Capital Movements

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①

Foreign Capital

→ Foreign capital includes any inflow of capital into the home country from abroad.



1.

Foreign Aid or assistance (HCE)

→ Bilateral or direct inter government grants

→ Multilateral aid from many govt.

→ Tied aid with stipulation
condition

→ Untied aid with no stipulation

→ Foreign grants (voluntary) from institutions or organisations

2.

Borrowings (loan)

→ Direct inter government loans

→ Loans from international institutions

→ Soft loans (No harsh condition)

→ External Commercial borrowing

→ Trade Credit facilities

3. Deposits from NRI (Non-Resident India)

4. Investments (निवेश)

→ Foreign portfolio Investment (FPI)

→ Foreign Direct Investment (FDI)

② Foreign Direct Investment (FDI)

→ According to IMF and OECD, the acquisition of at least 10% of ordinary shares or voting power in a public or private enterprise by non-resident investors make FDI

→ FDI has 3 components :-


- (a) Equity capital
- (b) Reinvested earnings
- (c) Other direct capital (eg Intra-Company loans)

→ FDI are real investments in factories, assets, land, inventories etc & involve foreign ownership of production facilities

→ FDI may be categorised as :-

Horizontal

It takes place when investor establishes same type of business operation in foreign country.

e.g. Walmart → 

Vertical


It takes place when investor establishes a different activity from its main business activity but may be supportive.

e.g. German Volkswagen acquired plastic moulding company in India

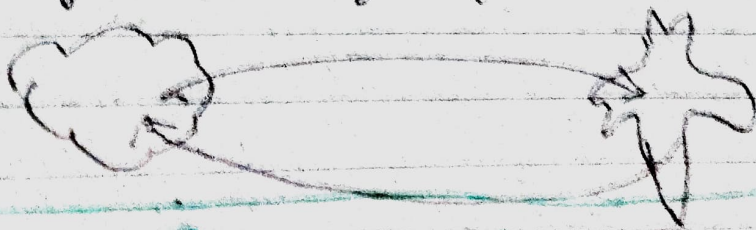


Conglomerate

It takes place when an investor makes investment in a business that is altogether unrelated.

e.g. W →  → Amul Ice cream

* Two way direct foreign investment



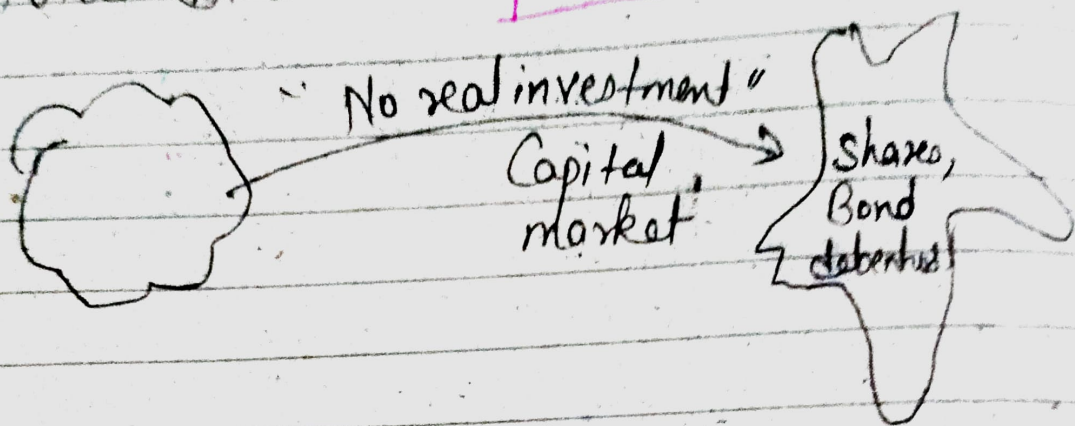
Foreign Portfolio Investment (FPI)

Foreign portfolio Investment is the flow of financial capital rather than real capital.

It does not involve ownership or control on part of investor.

These flows are generally short-term and have their immediate effects on BOP and exchange Rates. (No major effects on production or income generation)

Portfolio Investments are characterised by lower stakes in companies with their total stake at below 10%.



Speculation → FPI (✓)

Direct impact on employment → FDI (✓)

Difficult to withdraw → FDI (✓)

Interest in Management → FDI (✓)

Financial assets → FPI (✓)

Physical assets → FDI (✓)

Short term → FPI (✓)

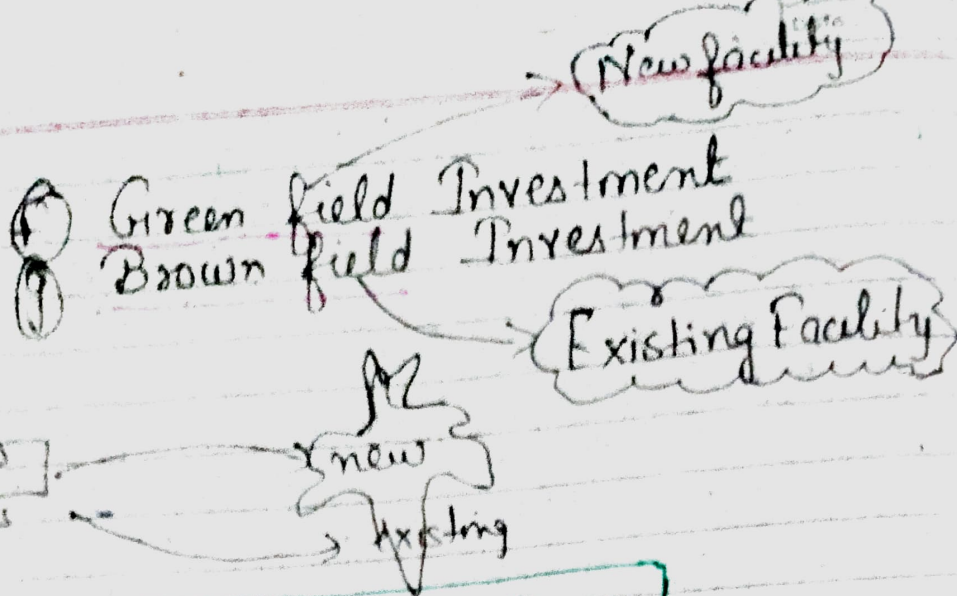
(4) Reasons For FDI

The main reason for FDI are :-

- (i) Profit
- (ii) Higher rate of return
- (iii) Possible ^{market} economies of large scale operation
- (iv) Risk Diversification
- (v) Capture of emerging markets
developing
- (vi) Lower host country environmental & labour standards.
- (vii) By passing tariff & non tariff barriers
- (viii) Cost effective availability of inputs
- (ix) Tax benefits

* FDI takes place through :-

- (a) Opening Subsidiary Company or associate
- (b) Equity Injection - (lump sum investment)
- (c) Acquiring control
- (d) Mergers & Acquisitions



5 Problems of FDI

- Use of unappropriate capital intensive methods in labour abundant country
- Increase in regional disparity. Mumbai 11
city 5
- Crowding out of domestic investment
- Diversion of capital resulting in distorted pattern of production & China
India
Canada
- Instability in BOP & exchange rates
- Repatriation of profits
- Anti ethical market distortions
- off-shoring or shifting of jobs
- Over exploitation of natural resources
- Decrease in Competitiveness of domestic

Harmful

Page

Date

- Jeopardizing national security
- Worsening commodity terms of trade etc.

$$\frac{\text{Price of Exports}}{\text{Price of Imports}}$$

⑥ Benefits of FDI

- New Innovations
- Higher Efficiency
- Higher Employment
- Better products
- Lower prices
- Welfare for Consumers
- Better access to foreign markets
- Improvement in BoP etc etc.

* Mauritius is the leading country in respect of inflow of FDI to India.

A foreign investor may enter India:

Through automatic route.

Through government route.

Through equity in domestic enterprises.

FDI is prohibited in Chit fund & Nidhi Company

According to RBI, Overseas direct investment stood at US \$ 1,922.51 million in Sep 2022.

Investment made by Indian companies in foreign companies

According to World Investment Report 2022, India was ranked 8th among the world's major FDI recipients. (US \$ 84,973 million during 2020-21)