FINANCE INDIA
© Indian Institute of Finance
Vol. XXXIV No. 3, September 2020
Pages – 1045 – 1057

Abstract of Doctoral Dissertation

Foreign Institutional Investor: Its Impact on Indian Economy with Special Reference to Indian Capital Market¹

G. LAKASHMI VISHALI*

I. Introduction

FOLLOWING INDIA'S INDEPENDENCE, policy measures for highly centralized economic planning expanding public investment in the core and key industries had been taken. Before 1990s, the emerging markets including India were not opened for foreign private investors. Most of the capital flow from developed markets to emerging markets was in the form of multilateral or bilateral aids. During 1990s, under the influence of the policies adopted by World Bank, IMF and other multilateral economic organizations, the emerging economies started opening their capital markets for foreign private investment. Today the private investment flow in the form of foreign direct investment and foreign portfolio investment, has assumed the prominent role in international capital flow.

1.1 Foreign Institutional Investments-Evolution

In India, foreign investment has been encouraged in two ways, particularly Foreign Direct Investment and Foreign Institutional Investment. The Indian Government realized during the new reforms of 1991 that foreign direct investment was intended to increase technology, promote reserves of foreign exchange and liberalize the Indian economy. Therefore, foreign portfolio investment via FII were welcomed. Foreign institutional investors were allowed by law to invest on all securities traded in primary and secondary markets with minimum rules from 14 September 1992. In addition, investments in FII were created in January 1993. The first corporate FII was from 'Pictet Umbrella Trust Emerging Markets Fund', Geneva (Switzerland).

¹ The Thesis was submitted to Acharya Nagarjuna University, Guntur, Andhra Pradesh in July 2019, for the award of Ph.D. Degree awarded in December 2019, under the supervision of Prof. R. Sivarama Prasad, Dean and Head of the Department, Acharya Nagarjuna University, Department of Commerce and Business Administration, Nagarjuna Nagar, Guntur, Andhra Pradesh 522510, INDIA

^{*} Post Doctoral Research Scholar, Acharya Nagarjuna University, Department of Commerce and Business Administration, Nagarjuna Nagar, Guntur, Andhra Pradesh 522510, INDIA

Net Asset Value (NAV) to mask their funds as best performers, Portfolio managers of Singapore, Hong Kong, London buy the stocks which have fallen the most at the end of year. As a result of which, the fund that have performed poorly for the most of the year suddenly become pricey due to the year-end surge in buying. Depository Participants/ Brokers must be conscious on these stocks and realize that the high price could be because of the year end NAV management strategy of portfolio managers and this could create an artificial demand which is very short term by nature.

Several malpractices in the stock market like preference share allotment, insider trading etc., must be curtailed. In order to increase investor confidence, regulatory authorities must pay close attention to corporate governance. While the quantity of foreign Institutional investment is important, the destination of these investments is also important. Though it is heartening to see that sectors like Banking, Finance, IT and FMCG are caught up with sufficient FII Investments, what a developing country like India needs is the development of Infrastructure, Services and Engineering sector. The FII Investments in these sectors are not encouraging. Therefore, the Ministry of Corporate Affairs must target these sectors and make them striking to the Investors.

References

Trapletti, Adrian, Kurt Hornik and Blake LeBaron, (2018), "Time Series Analysis and Computational Finance", June 2018

Thapliyal, Aseem, (2018), "Foreign investors make historic run from India: over ₹ 90,000 crore withdrawn from markets in 2018", Business Today, October 17, 2018

Reddy, Y.V., Governor of RBI, (2008), "Government-owned investment vehicles and capital flows – Indian perspective", International Capital Markets and Emerging Markets Roundtable, Washington DC, 14 April 2008

Bodla, Amita, (2016), "Determinants of FIIs: A Study of Indian Stock market", *IRACST-International Journal of Commerce, Business and Management*, Vol. 5, No. 6, November-Dececember 2016

Tiwari, Aviral Kumar and Phouphet Kyophilavong, (2017), Exchange rates and International reserves in India: A frequency domain analysis", *South Asia Economic Journal*, Vol. 18, No. 1, pp. 76-93

Christopher, J.Neely, (2017), "Chinese Foreign exchange reserves, policy choices and the U.S. Economy", Federal Reserve Bank of St.Louis, Working paper series 2017-001A, January 2017

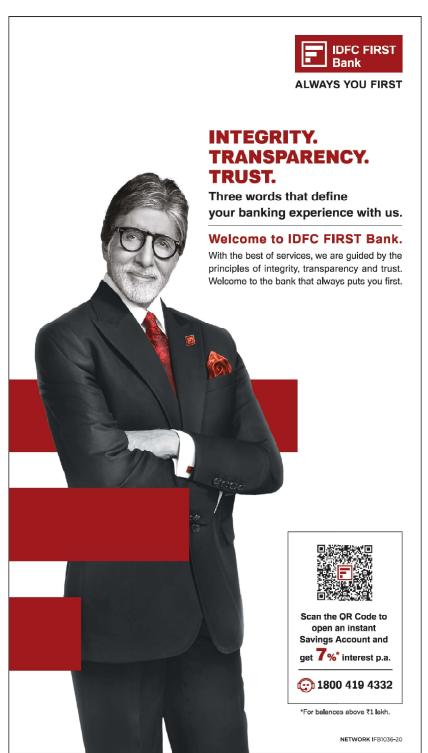
Bajpai, Nirupam, (2011), "Global financial crisis, its impact on India and the policy response", Working paper no.5, Working paper series, Columbia global centres/South Asia, Columbia Universities

Dua, Pami and Arunima Sinha, (2007), "East Asian crisis and Currency pressure: the case of India", Working Paper No. 158, Centre for Development Economics, August 2007

Batra, Amita (2003), "The Dynamics of Foreign Portfolio Inflows and Equity Returns in India, September 2003", Indian Council for Research on International Economic Relations Working Paper No. 109

Alberola, Enrique, Aitor Erce and José Maria Serena, (2012), "International Reserves and Gross Capital Flows Dynamics During Financial Stress", Federal Reserve Bank of Dallas, Globalization and Monetary Policy Institute Working Paper No. 110, March 2012

1058 Finance India



© Indian Institute of Finance