

# Trends and Patterns of FDI and FII in India- Implications for the Future

DR.YOGENDER GOUR\*

Mr. DHARAMVIR\*\*

\*ASSISTANT PROFESSOR G.B.P.G. COLLEGE

\*\* ASSISTANT PROFESSOR C.D.R.J.M. BUTANA SONIPAT

**Abstract:** Fiscal crisis in global markets have made the outlook of the Indian economic system more depressive but the idiosyncratic liberalization and globalization gave the emanation to the phenomena of the foreign investments i.e. FDI and FII in India. International economic integration plays vital role in economic development of the country. The foreign capital is one of the important means of the economic development of the country. FDI and FII are the two important investments in the global capital. The Karl Pearson Correlation and multiple Regressions are used to study the relation and impact of FDI, FII and BSE Sensex. The Correlation shows that there is strongly positive correlation between FDI and Sensex and weak negative correlation between FII and Sensex. On the other hand, Multiple Regressions shows that there is no impact of FII and FDI on BSE Sensex.

**Keywords:** Foreign Investment, FDI (Foreign Direct Investment), FII (Foreign Institutional Investment) and Sensex.

**Introduction:** FDI refers to the capital flows from the rest of the world which are invested in the production capacity of the economy. FDI facilitates international trade and transfer of knowledge skills and technology.

The FDI is preferred over FII since it is considered as the most important beneficial form foreign investment for economy as a whole. The direct investment augments the capacity to ensure that the capital inflows get translated into additional production. In the case of the foreign institutional investment that flows in the secondary markets affects the increase in capital availability in general and this money is considered as the hot money that comes and goes. Therefore FDI is considered as more stable than FII. On the other hand FII refers to the investor or investment fund which is registered in the country outside the one in which the investor is investing.

## Routes of FDI

### 1) Automatic Route

The FDI is allowed under the automatic route without the prior approval of the either the government or the Reserve bank of India related to all activities mentioned in the consolidated FDI policy issued by the Government of India from time to time.

#### b) Government Route

The activities that are not covered under automatic route require the approval of the government which is considered in the foreign investment portfolio board (FIPB), Department of Economics Affairs, and Ministry of Finance.

#### c) Routes of FII

Equity Investment The 100 percent investment is related to equity instrument or can be done through 70 percent (Equity Investment). 100 Percent Debt The 100 percent investment has to be made in the debt instruments only (Debt Investment).

d) Importance of FDI and FII The need of the foreign capital is important in the form of the FDI and FII for the development of the infrastructure which includes railways, sea ports, roads and warehouses. The rapid industrialization also takes place from the period 1991 which further strengthened the need of foreign capital. Many of the developing countries suffer because of the problem of the infrastructure. In other countries the interest rate is around 1 to 3 % but in India it is around 7 to 9 % so the investors want to invest in India where they get maximum return on their investments.

#### e) Bombay Stock Exchange

The Bombay Stock Exchange is established in 1875. This stock exchange is the Asia's first and largest stock exchange with speed of 6 microseconds. The BSE is also termed as Sensex. It consists of 30 of the largest most actively traded companies on stock exchange.

## REVIEW OF LITERATURE

**Mehta, Dhvani (2009)**, in her research work titled 'A Study: FII Flows in India' The Indian stock markets have been experiencing humungous amount of FII flows. This has affected small investors thinking that markets are rigged. For the good news to Indian investors it has been established that out of all the factors, it is basically the performance of Indian stock markets vis-à-vis other emerging and developed markets that probably may cause returns and not the other way round.

**Bansal, Anand and Pasricha, J. S. (2009)**, studied the impact of market opening to FIIs on Indian stock market behaviour. They empirically analyze the change of market return and volatility after the entry of FIIs to Indian capital market and found that while there is no significant change in the Indian stock market average returns; volatility is significantly reduced after India unlocked its stock market to foreign investors. In the next section we are discussing the data sources and methodology of the study.

**Chittedi , Krishna Reddy (2009)**, in his research work titled ‘ Volatility of Indian Stock Market and FIIs’ analyzed the performance of sensex v/s. FIIs and some of the most talked about movements of the sensex, starting with the secondary market summary of each year. Foreign investments in BSE reveals that the liquidity as well as volatility was highly influenced by the FII flows. FIIs are significant factor in determining the liquidity and volatility in the stock prices. With thorough analysis regarding the stock market in last 2 years, it was concluded that stock market touched its peak at 21000 but then crashed badly.

**Kaur, Manjinder and Dhillon, S. Sharanjit (2010)**, focused on the determinants of Foreign Institutional investment in India. Market capitalization and stock market turnover of India have significant positive influence only in short-run but Stock market risk has negative influence on FIIs inflows to India. Among macroeconomic determinants, economic growth of India has positive impact on FIIs investment in both long run and short run but all other macroeconomic factors have significant influence only in long run like inflation.

**Bohra, N. Singh and Dutt, Akash. (2011)**, studied the behavioral pattern of FII in India and figure out the reasons for indifferent responses of BSE Sensex due to FII inflows. They found the correlation between FII investment and turnover of different individual groups at BSE sensex. They concluded that there is a positive correlation between FII investment and stock market but in year 2005 and 2008, it was also observed that positive or negative movement of FII’s investment leads to a major shift in the sentiments of domestic or related investors in market.

**Singh (2011)**, stated that FII investment in India helped in achieving a higher degree of liquidity at domestic stock market; it had increased price earnings ratios and finally reduced the cost of capital for investment. Along with this they also help in improving the functioning of the domestic stock market.

**Shukla, K. Rajeev et al (2011)**, investigated the impact of foreign institutional investors on Indian stock indices. He revealed that India, after United States hosts the largest number of listed companies and Global investors now enthusiastically seek India as their preferred destination for investment. Many Indians working in foreign countries now divert their savings to stocks. They concluded that FIIs have significant impact on the share prices of the Midcap & Small-cap companies but small and a periodic shift in their behavior leads to market volatility.

**Shrikanth, M. and Kishore, B. (2012)**, in their paper investigated a cause and effect relationship between FII and Indian capital market. They observed that FIIs carried the institutional flavor in terms of market expertise and fund management by way of pooling small savings from retail investors. The main objective of FIIs is maximizing returns and minimizing risk while keeping liquidity of the investments intact. They concluded that net FII inflows had a positive impact on the Indian stock market and foreign exchange reserves.

**Sultana & Pardhasaradhi (2012)**, stated that as a result inflow of Foreign Direct investments has become a striking measure of economic development in both developed and developing countries. FDI and FII thus have become instruments of international economic integration and stimulation. Fast growing economies like Singapore, China, and Korea etc have registered incredible growth at onset of FDI. They finally concluded that the impact of flow of FDI & FII on Indian stock market is significant.

**Loomba, J. (2012)**, attempted to testify the behavior of FII trading and its effect on Indian stock market. He observed that in the course of capital market liberalization, foreign capital has become increasingly significant source of finance and institutional investors are growing their influence in developing markets. He concluded that the Indian stock markets have come in age where there were significant developments in the last 15 years make the markets at par with the developed markets.

**Srinivasan and Kalaivani (2013)**, studied FII inflows to India are essentially determined by exchange rate, domestic inflation, domestic equity market returns, returns and risk associated with US equity market.

**O'Neill (January, 2014)**, stated that Mexico was fortunate to be next to the United States while Indonesia was in a prime position as it is in Southeast Asia; the centre of global growth in recent years, and ties to China. Three of the Mints including Mexico, Indonesia and Nigeria are also commodity producers. Mexico and Nigeria in particular are reforming their energy markets, he noted. This analysis show various important components for the growth potential are Geographic Location, Tie-up with fast growing countries, Manufacturing basic commodities and reforms in infrastructures.

**Vishnoi (2014)**, has mentioned in his article that although India is seen in a better position than other countries such as Turkey due to its improved current account deficit and foreign exchange reserves, the country is being hit nonetheless. Indian markets will thus continue to be beholden to global risk factors, including concerns about the Federal Reserve's withdrawal in monetary stimulus and an economic slowdown in China.

## **OBJECTIVES OF STUDY**

Objective of this Study is to study the trends and patterns of foreign capital flow in India in the form of FII.

## **Data Collection and Research Methodology**

The quantitative approach is used which shows that the research design for the current study is descriptive cum exploratory cum exploratory. The study is based on the secondary sources. The required data related to FDI and FII have been collected from the various sources that is the bulletins of the Reserve bank of India, publications from the Ministry of the Commerce, Government of India. The closing index value of each

year is taken from the BSE website. The Karl Pearson coefficient of correlation and Multiple Regression is used to know the relation and impact of FDI and FII on BSE Sensex.

**TABLE NO 1**

**Trends of FDI and FII (BSE SENSEX)**

YEARS	FDI(FOREIGN DIRECT INVESTMENT) FLOWS( US \$ MILLION)	FII(FOREIGN INSTITUTIONAL INVESTMENT FUND(US \$ MILLION)
2006-07	22825	3224
2007-08	34842	20327
2008-09	41872	15016
2009-10	37744	29047
2010-11	34846	29421
2011-12	46553	16811
2012-13	34297	27581
2013-14	36045	5008
2014-15	45147	40922
2015-16	55456	(-)3575
2016-17	48031	(-)3377
Total	437671	150438

The table 1 and Graph 1 presents the amount of flow of the FDI and FII in terms of US\$ million. The flow of the FDI has shown an upward trend during the considered period but during the period 2015-2016 and 2011-2012 the flow of FDI is highest that is 55456 and 46555. The flow of FII has shown the mixed trend, during the period of 2008-09 and 2015-2016 it is negative that is (-) 3515 and (-) 15016. When the flow of the FDI and FII are compared the flow of the FII is less than flow of the FDI in India.

**TABLE NO 2**

**Trends of FDI and FII with BSE Sensex (Closing Values)**

Year	FDI Flow in US \$ million	FII Fund in US \$ million	SENSEX (Closing Value)
2006-07	2285	3224	13786.91
2007-08	34842	2037	20286.99
2008-09	41872	(-)15016	9647.31

2009-10	37744	29047	17464.81
2010-11	34846	29421	20509.09
2011-12	46555	16811	15454.92
2012-13	34297	27581	19426.71
2013-14	36045	5008	21170.68
2014-15	45147	40922	27499.42
2015-16	55456	(-)3515	26117.54
2016-17	48031	(-)3377	26626.46
Total	437671	150438	217990.84

Source: RBI Bulletin February 2017

Correlation  
 TABLA NO 3  
 Descriptive Statistics

	MEAN	S.D.	N
FDI	39788.27	8816.214	11
FII	13676.18	17516.069	11
SENSEX	19817.35	5586.724	11

Authors own compilation from various data source

TABLE NO 4  
 CORRELATION

	FDI	FII	SENSEX
FDI Pearson correlation	1	-.202	.496
Sig.(2-tailed)		.552	.122
N	11	11	11
FII Pearson correlation	-.202	1	.293
Sig.(2-tailed)	.552		.382
N	11	11	11
SENSEX Pearson correlation	.496	.293	1
Sig.(2-tailed)	.122	.382	
N	11	11	11

Authors own compilation from various data source

The Karl Pearson is applied to the study of the relationship of the FDI, FII and BSE Sensex. There is a strong positive correlation between FDI and Sensex and FDI and FII. When it comes to the FII there is a weak negative correlation between FII and FDI and FII and Sensex.

**TABLE NO 5**  
**ANOVA**

MODLE	Sum of Squares	D O F	Mean Square	F Value	Sig.
Regration	126612724.066	2	63306362.033	2.730	0125
Risidual	185502176.254	8	23187772.032		
total	31214900.320	10			

The ANOVA shows the acceptability of the model from a statistical perspective. The Regression row displays information about the variation accounted for by the model. The residual row displays information about the variation that has not been accounted by the model. The regression sum of squares is less than residual sum of squares which indicates 40.6% variation in Sensex is explained by the model. According to the F Statistic (.125) is greater than .05 which is found insignificant.

## Conclusion

The FDI and FII helps to develop the Indian economy and also gives the advantages to the Indian industry for the technological up gradation, helps in the utilization of the human and the natural resources with greater efficiency. Since the FDI is consider as the central for the India's integration into global production chains. The current study shows that there is a strongly positive correlation between FDI and Sensex and weak negative correlation between FII and Sensex. Using the multiple regressions the results depicts that there is there is no significant impact of FII and FDI on BSE Sensex.

As the FDI has strongly positive correlation between FDI and Sensex so the government should emphasize on FDI more as it leads to the high economic growth and employment opportunities in the country. In case of FII, the foreign investors can exit from the Indian Market whenever they want as it has been proved that there is no impact of FII on BSE Sensex. So for the developing country like India, FDI is considered as the most beneficial form of foreign investment for the economy as a whole and is of long-term nature.

## References

Planning commission of India. **Report of Steering group on FDI: FII in India** (government report)

Sultana Tabassum Syed Dr. and Pradhasardhi .S. Prof(2012),” **Impact of flow of FDI AND FII on Indian Stock Market**”, Finance Research”, Volume 1 Number 3 July 2012 ISSN-216508226.

Jasbir Singh Dr., Chadha Sumita Ms. and Sharma Anupama Dr. (2012),”**Role of Foreign Direct Investment in India: An Analytical Study**”, International Journal of Engineering and Science.

Kumar S.S,” **Indian Stock Market in International Diversification**”, Indian Journal of Economics”, Volume, xxxii, No-327, April, pages 85-102.

Annand Bansal and J.S Parischa(2009),”**Foreign Institutional Investors Impact of stock prices in India**”, Journal of Academics Research in Economics”, J(2), 181-189.

Jasbir Singh Dr., Chadha Sumita Ms. and Sharma Anupama Dr.(2012),”**Role of Foreign Direct Investment in India: An Analytical Study**”, International Journal of Engineering and Science(ISSN:2278-472), Volume 1 Issue 5(October 2012).

Kumar Vinay (2014),” **Trend of FDI in India and its impact on economic growth**”, “**International Journal of Science and Research**”, Volume 3 Issue 10 October 2014.

Khan Iftexhar Mohammad and Banerji Amit (2014),” **A Study on Drivers, Impact and Pattern of FDI in India**”, “The Journal of Developing Areas”, Volume 48 Numbers Fall 2014.

Rani Kavita and Kumar Sanjiv(2015),”**Analysis of Dynamic Interaction between Foreign Investment and Indian Stock Market**”, “Journal of International Economics,” Volume 6 Issue 2 July- December 2015