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Abstract of Doctoral Dissertation

Foreign Institutional Investor : Its Impact on Indian Economy with Special Reference to Indian Capital Market[1]

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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).

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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.

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