Presentation on

Foreign Capital & Investment

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Meaning and Need of Foreign Capital:

- The term 'foreign capital' is a comprehensive term and includes any inflow of capital in home country from abroad. It may be in the form of foreign aid or loans and grants from the host country or an institution at the government level as well as foreign investment and commercial borrowings at the enterprise level or both. Foreign capital may flow in any country with technological collaboration as well.
- In countries like China, Thailand, Malaysia and Singapore contribution of foreign capital has been extremely encouraging. But in Latin America and African Countries foreign capital flow has not been satisfactory. Foreign capital is useful for both developed and developing countries. Advanced countries try actively to invest capital in developing countries. In India, foreign capital has been given a significant role, although it has been changing overtime.

Need for Foreign Capital:

- **Foreign capital** is **needed** to fill the gap between the targeted **foreign** exchange requirements and those derived from net export earnings plus net public **foreign** aid. This is generally called the **foreign** exchange or trade gap.

- 1. To Sustain a High Level of Investment
- 2. To Fill the Technological Gap
- 3. To Undertake the Initial Risk
- 4. To Exploit the Natural Resources
- 5. To Improve the Balance of Payments Position

Types of Foreign capital :

- 1. Foreign Aid
- 2. External Commercial Borrowings
- 3. Private Foreign Investment
- Foreign aid may consist of loans and grants.
- **Private foreign investment takes two forms:**
- (a) Foreign Direct Investment (FDI)
- (b) Foreign Portfolio Investments (FPI).

Foreign Aid

- Foreign Aid consists of loans and grants. Loans may be taken from individual countries or from institutional agencies like World Bank, IMF and International Financial Corporation. Usually loans are taken for medium and long term capital needs of a country. Loans impose a heavy burden on the borrower country because they are to be repaid, along with interest, called surviving of loans. Loans may be tied because of restrictions. Such restrictions may be in the form of end use or in the form of source.
- Grants are given by public or private charitable organizations. They are given for relief purposes and immediate use grants may be time bound and can be used only for specific purpose. Loans involve repayment obligations, whereas grants are non-refunded.
- Concessional Assistance includes grants and loans obtained at low rates of interest with long maturity periods. Such assistance is generally provided on a bilateral basis or through multilateral agencies like the World Bank, International Monetary Fund (IMF), and International Development Association (IDA) etc. Loans have to be repaid generally in terms of foreign currency but in certain cases the donor may allow the recipient country to repay in terms of its own currency.

External Commercial Borrowings

- Non-Concessional Assistance mainly includes External Commercial Borrowings (ECB's), loans from governments of other countries/multilateral agencies on market rate & terms from foreign Banks and deposits obtained from Non-Resident Indians (NRIs).

Foreign Investment

- Foreign Investment includes Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). FPI includes the amounts raised by Indian corporate through Euro Equities, Global Depository Receipts (GDR's), and American Depository Receipts (ADR's).
- In India foreign direct investment may further take the form of (i) wholly owned subsidiary (ii) joint venture and (iii) acquisitions, Foreign portfolio investment may be (i) Investment by Foreign, Institutional Investors (FIIs) including Non-Resident Indian (NRIs) (ii) Investment in (a) Global Depository Receipts (GDRs) and (b) Foreign Currency Convertible Bonds (FCCBs).

Foreign Investment

- **FDI** is an investment that a parent company makes **in a** foreign country. On the contrary, **FII** is an investment made by an investor **in the** markets of a foreign nation. The **FDI** flows into the primary market, while the **FII** flows into secondary market. ... **FII** can enter the stock market easily and also withdraw from it easily. Foreign direct investments (**FDI**) are investments made by one company into another located in another country. FDIs are actively utilized in open markets rather than closed markets for investors. Horizontal, vertical, and conglomerate are types of **FDI's**. ... Apple's investment in China is an **example** of an **FDI**.

Advantages of FDI

- Increased Employment and Economic Growth
- Human Resource Development
- Development of Backward Areas
- Provision of Finance & Technology
- Increase in Exports
- Exchange Rate Stability
- Stimulation of Economic Development
- Improved Capital Flo

Disadvantages of FDI

- Disappearance of cottage and small scale industries
- Exchange crisis
- Cultural erosion
- Political corruption
- Inflation in the Economy
- Trade Deficit

Thanks