Chapter 6

Finance & Investments

Foreign Direct Investments (FDI) and Foreign Institutional Investment/Foreign Portfolio Investment (FII/FPI)

FDI	When a foreign company invests in India directly by setting up a wholly owned subsidiary or getting into a joint venture and conduct business in India. **FDI is a major driver of economic growth** as it enhances productivity by bringing capital, skills and technology to the host country and a source of non-debt finance for the economic development of the country.
FDI is prohibited in	a) Lottery Business including Government/private lottery, online lotteries, etc. b) Gambling and Betting including casinos etc. c) Chit funds d) Nidhi company e) Trading in Transferable Development Rights (TDRs) f) Real Estate Business or Construction of Farm Houses 'Real estate business' shall not include development of townships, construction of residential /commercial premises, roads or bridges and Real Estate Investment Trusts (REITs) registered and regulated under the SEBI (REITs) Regulations 2014. g) Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes h) Activities/sectors not open to private sector investment e.g.(I) Atomic Energy and (II) Railway operations
FII	When foreign investors invest in the shares/bonds of a company that is listed in India
Nature	FDI invests in new production activities hence help in economic development. Whereas FIIs invest mainly in capital market for short term
Hot money	Foreign Portfolio Investment (FPI) is often referred to as "hot money" because of its tendency to flee at the first signs of trouble in an economy or improvement in investment attractiveness elsewhere in the world, particularly in the US at the hands of the Federal Reserve.
FDI inflow	Major portion of FDI in India is from Mauritius as it has double taxation avoidance agreement with India. Singapore is on second position.
Double Taxation Avoidance Agreement	DTAA is a tax treaty signed between two countries to avoid dual taxation on same income. It makes a country an attractive investment destination. Since legitimate investors were routing investments through Mauritius and Singapore to sidestep taxation. Hence India has amended DTAA with Mauritius, Singapore and Cyprus to curb tax evasion.

IAS Prelims 2012
Which of the following would include Foreign Direct Investment in India?
1. Subsidiaries of foreign companies in India
2. Majority foreign equity holding in Indian companies
3. Companies exclusively financed by foreign companies
4. Portfolio investment
Select the correct answer using the codes given below:
a) 1, 2 , 3 and 4 b) 2 and 4 only c) 1 and 3 only d**) 1, 2 and 3 only**

IAS Prelims 2010
A great deal of FDI to India comes from Mauritius major and mature economies like UK and France. Why?
(a.) India has preference, for certain countries as regards receiving FDI
(b.) **India has double taxation avoidance agreement with Mauritius**
(c.) Most citizens of Mauritius have ethnic identity with India and so they feel secure to invest in India
(d.) Impending dangers of global climatic change prompt Mauritius to make huge investments in India

IAS Prelims 2011
Both foreign direct investment (FDI) and foreign institutional investor (FII) are related to investment in a country. Which one of the following statements best represents an important difference between the two?
(a) FII helps bring better management skills and technology. While FDI only brings in capital.
(b) **FII helps in increasing capital availability in general, while FDI only targets specific sectors**.
(c) FDI flows only into the secondary market, in general, while FII targets primary market.
(d) FII is considered to be more stable than FDI.