FDI & FII: IMPACT ON INDIAN FINANCIAL MARKET

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ABSTRACT

Unprecedented globalizations have witnessed double digit economic growth resulting in fierce competition and accelerated pace of innovation. 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. Foreign investment refers to investments made by the residents of a country in the financial assets and production processes of another country. It can come in two forms: foreign direct investment (FDI) and foreign institutional investment (FII). The effect of foreign investment, however, varies from country to country. Foreign investment provides a channel through which countries can gain access to foreign capital. Foreign direct investment involves in direct production activities and is also of a medium to long-term nature. But foreign institutional investment is a short-term investment, mostly in the financial markets. FII, given its short-term nature, can have bidirectional causation with the returns of other domestic financial markets such as money markets, stock markets and foreign exchange markets. Hence, understanding the determinants of FII is very important for any emerging economy as FII exerts a larger impact on the domestic financial markets in the short run and a real impact in the long run. The policies drafted to stimulate the flow of foreign capital into India provided much needed impetus for India to emerge as an attractive destination for foreign investors.

KEYWORDS: FDI, FII, financial markets & foreign capital.