

UNIT – V : FOREIGN INVESTMENTS

Model Exam Answers (10–15 Marks)

1. Foreign Collaboration – Meaning, Types and Policy Framework

Foreign collaboration refers to an arrangement between an Indian enterprise and a foreign entity for sharing capital, technology, managerial expertise, or technical know-how. It plays a vital role in industrial growth and globalization of the Indian economy.

Types of Foreign Collaboration

1. Financial Collaboration: Involves foreign equity participation in Indian companies.
2. Technical Collaboration: Involves transfer of technology, patents, and technical services.

Foreign collaboration in India is governed by FEMA, 1999 and regulated by RBI and DPIIT. Approvals are provided through Automatic Route or Government Route depending on sectoral caps.

2. Foreign Direct Investment (FDI)

Foreign Direct Investment refers to investment made by non-residents in Indian enterprises with the intention of long-term control and management participation.

Entry Routes

- Automatic Route – No prior government approval required.
- Government Route – Prior approval required for specified sectors.

Instruments of FDI

- Equity shares
- Convertible debentures
- Preference shares

FDI contributes to capital formation, employment generation, technology transfer and infrastructure development.

3. Foreign Institutional Investment (FII) & Portfolio Investment Scheme (PIS)

Foreign Institutional Investors are entities such as mutual funds, pension funds and insurance companies that invest in Indian capital markets through the Portfolio Investment Scheme regulated by SEBI and RBI.

Key Features of PIS

- Investment in equity, debt and derivatives
- Investment limits prescribed
- Transactions through AD Category-I Banks
- Mandatory KYC and reporting norms

4. Offshore Country Funds

Offshore country funds are investment funds domiciled outside the investor's home country that invest in securities of a specific country like India.

Advantages

- Tax benefits • Global investor access • Portfolio diversification • Flexible regulations

5. Foreign Venture Capital Investment (FVCI)

Foreign Venture Capital Investment refers to investments made by SEBI-registered FVCIs in Indian startups and unlisted companies.

FVCIs promote innovation, entrepreneurship and startup ecosystem growth in India.

6. International Capital Markets

International capital markets facilitate cross-border borrowing and lending of long-term funds by governments, companies and individuals.

Components

- International Equity Markets • International Bond Markets

International capital markets reduce cost of capital, diversify risk and promote global financial integration.