Page 2427 - 2434 **DOI:** https://doij.org/10.10000/IJLMH.116372

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 6 | Issue 6

2023

Domestic and Foreign Institutional Investors in Emerging Markets

V. AKSHARA SARADHA[1] AND HARISH MS[2]

ABSTRACT

In the domain of company law within emerging markets, the roles and regulatory considerations for domestic and foreign institutional investors present dynamic challenges and opportunities. Domestic institutional investors, comprising entities like pension funds, mutual funds, and insurance companies, navigate the regulatory frameworks of their home countries. These regulations often emphasize investor protection, market integrity, and financial stability. In contrast, foreign institutional investors operate across borders and must navigate the legal intricacies of emerging markets. Their involvement is subject to host-country regulations, encompassing compliance with local company laws, disclosure requirements, and corporate governance standards. Striking a balance between attracting foreign investment and safeguarding domestic interests remains a focal point in emerging market company law. The legal landscape shapes the dynamics of corporate governance, decision-making processes, and the protection of investor rights. As emerging markets evolve, the interplay between domestic and foreign institutional investors within the framework of company law plays a pivotal role in shaping the trajectory of these markets and fostering a regulatory environment conducive to sustainable economic growth. In this paper, there is a major comparison between Domestic and Foreign Institutional investors and their impact in India as well as Korean stock exchange.

The role of investors in any emerging markets play a vital role in offering substantial growth development. This study investigates how trading by Foreign Investors and Domestic Institutional Investors improves firm- specific information by overall development and how it is incorporated into stock prices synchronicity. It further highlights their impact on investment strategies, corporate governance and economic growth. The comparison between Foreign Investors and Domestic Institutional Investors brings out trading by foreign and domestic investors that led to decrease in stock price synchronicity. Among domestic institutions, short- term investing institutions such as securities and investment play an important role in incorporating firm- specific information into stock price compared to banking and insurance companies that are long- term investing institutions. Foreign investors trading companies are treated better for incorporation of firm- specific information in connection with aggregate domestic institutions. Furthermore, how both

[1] Author is a student at SASTRA Deemed University, India.
[2] Author is a student at SASTRA Deemed University, India.

 [ISSN 2581-5369]

foreign and domestic institutional investors form their game plan and how they implement it in an economy and also to find how they hugely impact the upcoming and emerging markets in the Indian economy.

I. Institutional investors

Investor is a person or an entity who allocates capital to the company expecting something in return. For a company's expansion, growth and development, investor's role is very important. Investors can take the form of shareholders, creditors, venture capitalist and other financial stakeholders. Equity investors are the persons who participate in company's profit through dividends and have voting rights in meetings of the board. Equity investor acquires ownership in the company whereas Debt investors does not acquire ownership in the company. Debt investors are the persons who lend money to the company in exchange for interest payments. Investor's particular rights, responsibilities, and legal issues vary depending on the type of investment and the regulatory environment in the country where the business is based.

The group of investors is not homogeneous. Their capital, styles, preferences, time horizons, and risk tolerances differ. For example, certain investors might favour extremely low-risk investments like certificates of deposit and specific bond instruments that yield conservative gains. On the other hand, some investors are more likely to take on more risk in an effort to increase their profits. These investors may deal with a daily roller coaster of many elements while making investments in stocks, currencies, or developing markets.

An increasing trend over the past 25 years has seen many emerging nations liberalize their stock markets, enabling international investors to make direct investments in the equity securities of local businesses. The performance and portfolio selection of foreign investors has prompted some intriguing questions about foreign access to domestic equity markets. A significant body of research in the literature on "home bias" looks on firm-specific variables that affect foreign investors' shareholdings. Domestic investors are subject to the regulatory environment and company laws of their home country. Company laws may vary, but domestic investors generally have fewer restrictions compared to foreign investors due to their status as part of the local business community.

Domestic and Foreign Institutional Investors often engage in portfolio diversification, spreading their investments across different asset classes and markets to manage risk and are typically required to adhere to disclosure requirements to ensure transparency. This may include reporting their holdings, financial performance, and investment strategies. Institutional investors, such as pension funds, mutual funds, and sovereign wealth funds, often play a crucial role in shaping corporate governance practices in emerging markets. They may exercise their voting rights to influence important decisions at shareholder meetings, including the election of directors and approval of major corporate actions. Stewardship activities involve active engagement with the companies in which institutional investors hold stakes. This engagement may include dialogue with company management, participation in shareholder meetings, and advocacy for responsible business practices. The degree of engagement by institutional investors can influence company strategies, risk management practices, and compliance with legal and ethical standards. In some emerging markets, there may be specific regulations governing foreign institutional investment. Institutional investors need to navigate these regulations, which may include restrictions on foreign ownership percentages, approval requirements, and compliance with local laws. They may choose to take legal action for cases including shareholder oppression, breach of fiduciary duty, and other corporate governance issues if they feel that their rights have been infringed.

The various kinds of Domestic Institutional Investors like Pension Funds, Mutual funds, Insurance Companies, Sovereign wealth funds and Development Finance Institutions (DFIs) helps in pooling of funds to invest in various financial instruments including stocks, bonds and other securities. These investors generally operate with the regulatory framework of their own home country. The presence of these investors contributes to the market liquidity. They can enhance the efficiency of emerging economies with capital markets. Emerging market governments may implement incentives and regulatory changes to draw in and promote domestic institutional investment. These actions could take the form of tax breaks, expedite regulatory procedures, and strengthen corporate governance structures.

Foreign institutional investors (FIIs) are foreign organizations that make large capital investments in emerging economies' financial systems. These investors play a crucial role in providing liquidity, diversification and global exposure to emerging market securities. Foreign Institutions act as actively monitors, shield company managers from failed innovation attempts, and encourage the transfer of information from economies with high levels of innovation. Foreign investors majorly deal in exchange of goods and services with domestic investors and they participate in the management of the company. They involve in transfer of rights and obligations resulting from a contract on investment or contract to other foreign investors or local nationals. Foreign investors also have the right to return on investment, part of net-assets and a part of it, and other rights prescribed in company law and any other law. He also has the right to access business books and daily operations of the company in which the investor has invested assets.

II. Korean stock exchange

We need firm-level data on trading by foreign and domestic institutional investors in a particular market in order to evaluate the firm-level relationship between the amount of firm-specific information into stock prices and the differences in trading activity between domestic and overseas institutional investors. This paper is majorly based on Korean stock exchange. Korea is one of the few countries where detailed data is publicly available based on shareholdings and Equity share trading by foreigners and many domestic institution kinds. Foreigners who are investing in Korean stock exchange are required to register with the Financial Supervisory Services (FSS). For every stock listed on the KSE, the FSS has maintained tabs on the quantity of equity shares held by international investors and various domestic institution types. Since foreign ownership constraints were not binding in 1998, when the Korean regulatory authority completely abolished limits on foreign equity ownership (a year after the Korean financial crisis began), we effectively control for the potential impact of foreign ownership constraints, or "investability, on our results. Specifically, we analyze the informational role of both domestic and foreign institutional investors in the Korean stock markets.

Investor surveys and econometric or case studies are the two basic formats in which empirical research on FDI determinants is conducted. For instance, a big market size, political and macroeconomic stability, GDP growth, domestic rules, and the capacity to repatriate earnings are cited by A.T. Kearney's comprehensive study of 1000 enterprises as the most significant factors influencing the site of FDI (Development Business, 1999). The size of the market, together with labour costs and foreign direct investment (FDI) rules, is ranked as the primary factor of investment location selection in East Asia, according to a World Bank survey of 173 Japanese manufacturing enterprises. Similar findings are found in a study on how the EU's expansion has affected foreign direct investment (FDI) flows to other developing or rising nations: the host market's size and growth rate have the greatest impact. Notably, tax and fiscal incentives were thought to have little to no effect on where foreign direct investment chooses to locate. Buch and others (2005) looked into the factors that influence German foreign direct investment location globally. They demonstrate that a 1% rise in a foreign market's size corresponds to a 1% increase in German companies' activity there. Typically, econometric research employs panel data or aggregate FDI metrics to examine a single nation. While a few variables, such labour costs or market size, are typically included in empirical models, the other determinants that are included differ greatly depending on the study goal or the availability of data.

The liberalization of the stock market also increases the demand on securities market regulators to implement international norms for corporate governance, disclosure requirements, and accounting standards. The Korean government has steadily worked to increase business transparency ever since it opened its share markets to international investors in 1992. In particular, the Korea Financial Supervisory Commission introduced class action lawsuits to strengthen the rights of minority shareholders and improve corporate governance practices. These changes were made in response to the 1997 Asian financial crisis and brought about significant changes to Korean financial accounting standards to make them more compliant with International Financial Reporting Standards. The Korean stock exchange is shaped by the dynamic participation of both domestic and foreign institutional investors. Domestically, investment trusts, including mutual funds, play a crucial role, managing funds from individual investors and diversifying portfolios across various stocks. Insurance companies and pension funds, both public and private, also contribute significantly, strategically investing in equities to generate returns. Securities companies further enhance market liquidity through proprietary trading and fund management. On the international front, foreign institutional investors, ranging from hedge funds to asset management firms, actively engage in the Korean market, infusing it with foreign capital and contributing to market liquidity. Global investment banks and sovereign wealth funds from various countries also participate, and foreign exchange-traded funds (ETFs) tracking Korean indices further amplify foreign institutional presence. The combined influence of domestic and foreign institutional investors shapes the overall landscape of the Korean stock market, impacting stock prices, market trends, and liquidity dynamics. Government regulations are in place to ensure fair and transparent markets, reflecting the importance of these institutional actors in South Korea's financial ecosystem. To obtain the most up-to-date information, it is advisable to refer to recent financial reports, news sources, and regulatory updates from the Korea Exchange and relevant financial authorities.

Domestic investors exert a substantial impact on the financial landscape of South Korea, particularly within the dynamic realm of the country's stock market. Comprising a diverse array of entities such as individual investors, investment trusts, insurance companies, pension funds, and securities firms, these domestic players collectively influence market liquidity, trading activities, and overall market sentiment. Their active participation in stock trading activities contributes to the daily trading volume, affecting the ebb and flow of market dynamics. Furthermore, the investment decisions of institutional players, especially pension funds and investment trusts, carry the potential to induce significant price movements in specific stocks or sectors. With a long-term investment horizon, pension funds and insurance companies contribute to market stability by providing a steady influx of capital, thus mitigating short-term volatility. Beyond mere financial transactions, these domestic investors engage in corporate governance activities, exercising voting rights on pivotal matters and influencing the strategic direction of listed companies. Their involvement in initial public offerings (IPOs) also shapes the fate of newly listed companies, reflecting broader investor confidence. The regulatory framework ensures that these domestic investors operate within a fair and transparent environment, contributing to the resilience and developmental trajectory of the Korean stock market. In essence, the actions and decisions of domestic investors in South Korea collectively mould the financial ecosystem, impacting market behaviour and fostering a robust and evolving market landscape.

Indian domestic investors can have an indirect impact on the Korean financial markets, primarily through their investment decisions in multinational corporations that operate in South Korea. Many Indian investors participate in global equity markets, and their choices can influence the stock prices and performance of companies with significant operations in South Korea. Large Korean conglomerates, known as chaebols, often have diverse international operations, including subsidiaries or joint ventures in India. As Indian investors assess and allocate their portfolios across various multinational corporations, the success or challenges faced by Korean companies can be reflected in stock valuations. Additionally, Indian institutional investors, such as mutual funds and insurance companies, might have exposure to global markets, including South Korea. Their investment decisions and portfolio adjustments based on global economic conditions, geopolitical events, or industry trends can indirectly impact Korean financial assets. While the direct influence may be more pronounced in regional and domestic markets, the interconnectedness of the global economy means that the choices made by Indian investors can contribute, albeit indirectly, to the broader dynamics of the Korean financial landscape. It's important to note that the extent of this impact depends on the scale and nature of Indian investments in multinational corporations operating in South Korea. Korean foreign investors wield a noteworthy influence on the Indian financial landscape, contributing to the country's economic development and fostering bilateral economic ties. South Korean companies, often recognized for their technological prowess and manufacturing capabilities, have made substantial investments in various sectors across India. These investments cover industries such as automobiles, electronics, and infrastructure development. The presence of Korean multinational corporations in India, with their extensive operations and employment generation, not only enhances economic growth but also introduces advanced technologies and managerial practices. Additionally, Korean foreign direct investment (FDI) in India contributes to the country's quest for improved infrastructure, innovation, and job creation. The technology transfer and skill development associated with Korean investments have a positive impact on India's industrial and manufacturing sectors. Furthermore, the economic cooperation extends to areas such as trade agreements, joint ventures, and partnerships, fostering a robust economic relationship between the two nations. The success and expansion of Korean businesses in India are pivotal in shaping the economic landscape, and the reciprocal nature of these investments enhances the overall economic resilience and competitiveness of both South Korea and India on the global stage.

In the realm of company law, the distinction between domestic and foreign institutional investors is crucial, delineating the regulatory frameworks and considerations that govern their activities within a particular jurisdiction. Domestic institutional investors, such as pension funds, mutual funds, and insurance companies, are subject to the regulatory landscape of their home country. These regulations often stem from the need to protect local investors, ensure market integrity, and maintain financial stability. In contrast, foreign institutional investors operate across borders and encounter a different set of regulatory challenges. They must navigate the legal requirements of the host country, which may involve compliance with local securities laws, reporting standards, and disclosure requirements. Additionally, foreign institutional investors may face restrictions on ownership percentages, voting rights, and participation in corporate governance matters. The legal landscape aims to strike a balance between attracting foreign investment and safeguarding the interests of local stakeholders. Both domestic and foreign institutional investors play integral roles in shaping corporate governance, influencing decision-making processes, and impacting the overall functioning of companies. As regulatory environments continue to evolve globally, finding equilibrium between accommodating foreign investors and upholding domestic regulatory objectives remains a dynamic challenge in the field of company law.

The Korean stock exchange exerts a notable impact on Indian institutional investors operating within the framework of company law. Indian institutional investors, such as mutual funds, insurance companies, and pension funds, engage in cross-border investments, including participation in the Korean equity market. The regulatory environment in South Korea significantly influences the strategies and activities of Indian institutional investors. Compliance with Korean company law, securities regulations, and corporate governance standards becomes imperative for Indian entities investing in Korean stocks. The legal framework in South Korea may have specific provisions regarding foreign ownership limits, voting rights, and participation in key corporate decisions. Indian institutional investors, while seeking returns and diversification in the Korean market, must navigate these regulatory intricacies. Additionally, changes in Korean company law or market regulations can impact the rights and responsibilities of foreign institutional investors, necessitating vigilant adherence to evolving legal requirements. Understanding and adhering to the legal landscape of the Korean stock exchange is paramount for Indian institutional investors, ensuring their effective participation in the market while complying with cross-border regulatory considerations. This interplay underscores the importance of a nuanced understanding of company law in both countries to facilitate seamless and compliant investment activities.

III. Conclusion

This paper basically deals with the impact of Korean stock exchange in Indian emerging markets. The Korean stock exchange is completely based on the registration with Financial Supervisory Service (FSS) for transaction of goods and services. The impact of the Korean Stock Exchange on Indian emerging markets within the realm of company law is transformative. It challenges the existing regulatory frameworks to evolve and adapt, fostering an environment conducive to international business while upholding the principles of corporate governance. As these markets continue to interconnect, the collaborative efforts of regulatory authorities will be pivotal in shaping a legal landscape that accommodates the dynamics of global business partnerships. Furthermore, the integration of Korean companies into the Indian market can potentially lead to advancements in corporate governance standards, bringing about positive changes in disclosure norms, shareholder rights, and board structures. This cross-pollination of regulatory ideals can serve as a catalyst for the evolution of India's corporate legal landscape. The participation of both domestic and foreign institutional investors plays a crucial role in shaping the dynamics of emerging markets. Domestic institutional investors, often representing local pension funds, insurance companies, and mutual funds, bring stability and a long-term perspective to the market. Their understanding of local nuances and economic conditions can contribute to a more resilient and sustainable market environment. On the other hand, foreign institutional investors inject liquidity, diversification, and international best practices, fostering increased efficiency and competitiveness in emerging markets. However, the balance between these two investor categories is delicate, as excessive reliance on foreign capital may expose the market to volatility and external shocks. Therefore, a well-regulated and balanced approach that encourages collaboration between domestic and foreign institutional investors is essential for fostering robust and resilient emerging markets that can withstand global economic challenges.