Comprehension Test for Bank Exams (IBPS Clerk Pre, SBI Clerk Pre, and IBPS RRB)

Passage No. 97

Direction: Study the following information carefully and answer the question given below.

The proposed Outward Direct Investment (ODI) policy may contain provisions to make it easy for many Indian firms, envisioning ambitious plans to transform themselves into multi-national companies (MNC), to go global and expand.

Approval requirements and other norms would be simplified in a manner that would encourage 'internationalisation' of Indian companies. However, sources, privy to the developments, also said the ODI policy was expected to tighten regulations to prevent round-tripping structures, where funds are routed by India-based companies into a newly formed or existing overseas subsidiary and then brought back to India to circumvent regulations here. They said the Reserve Bank of India (RBI) and the Finance Ministry (tax department) were concerned about such structures.

In his 2018-19 Budget speech, Finance Minister Arun Jaitley said, "The government will review existing guidelines and processes and bring out a coherent and integrated ODI policy." According to India Brand Equity Foundation (IBEF), "Indian firms invest in foreign shores primarily through mergers and acquisition (M&A) transactions. With rising M&A activity, companies will get direct access to newer and more extensive markets, and better technologies, which would enable them to increase their customer base and achieve a global reach." Currently, the jurisdiction over ODI is mainly with the RBI, and the concerned law here is the Foreign Exchange Management Act.

Export-Import Bank of India (EXIM Bank), in a July 2017 research brief, had said: "... policy measures by way of removing hindrances and providing broad support (such as financial and technological), especially to firms with small foreign investment intensities (small overseas investment positions) can help improve firms' competitiveness, export earnings and sales." It added, "This support can also be targeted towards export firms particularly if they are planning for technology-seeking ODI." The research brief also said the EXIM Bank's Overseas Investment Finance programme offers financial support measures to further Indian firms' overseas investments, particularly those of outward-oriented small and medium enterprises.

As per Finance Ministry data, India's ODI rose 56.1% year-on-year from $6.8 billion in 2014-15 to $10.6 billion in 2015-16, and further up by 39.37% to $14.8 billion in 2016-17. Top ten ODI destination countries in FY'15, FY'16 and FY'17 included Mauritius, Singapore, the U.S., the UAE, the Netherlands, the U.K, Switzerland, Russia, Jersey and British Virgin Islands. Cumulatively, these nations were the beneficiaries of 84% or more of India's ODI during each of those financial years.

Questions:

1. The Finance Ministry and RBI were anxious about which of the following?

A. Economic position of the PSUs.
B. Round-tripping by the Indian companies.
C. Low amount of foreign direct investment in the country.
D. Outflow of funds from the country.
E. None of the above.

2. Which of the following is true in the context of the passage?

I. The dynamics on the rise in ODI by India is released by IBEF.
II. The government will review new guidelines to form a coherent policy on ODI.
III. The present ODI policy may help Indian firms to transform into MNCs.

A. Only II B. Only I and II C. Either I or III D. All of these
E. None of these

3. How overseas M&A transactions are supportive to higher customer base as per the passage?

I. They will have a joint customer base of both the companies post merger.
II. It will ensure company's exposure to new markets and customers.
III. Having global acknowledgement would ensure higher brand value.

A. Only I B. Only II and III C. Only II D. Only I and III
E. None of these

4. Which of the following is not true as per the passage?

I. RBI Act is the concerned law for ODI.
II. New Zealand is among the top ten ODI destinations.
III. Broad support can also be targeted towards import firms.

A. Only II B. Only II and III C. Only I and II D. All of these
E. None of these

5. What could be a suitable title of the passage?

A. Outward Direct Investment - A complete overview
B. A new way to Money laundering
C. From Liberalization to Globalization
D. Avenues of ODI
E. Regulators of Outward Direct Investment

Correct Answers:

1	2	3	4	5
B	E	C	D	A

Explanations:

1. Refer to:

ODI policy was expected to tighten regulations to prevent round-tripping structures, where funds are routed by India-based companies into a newly formed or existing overseas subsidiary and then brought back to India to circumvent regulations here. They said the Reserve Bank of India (RBI) and the Finance Ministry (tax department) were concerned about such structures.

With the above highlighted text it is clear that the round-tripping i.e deceitful to and fro of the funds by the Indian companies is the point of concern for RBI and Finance ministry.

It includes not just the outflow but also the inflow of funds in order to deceit the authorities. This makes option D incorrect.
Rest of the options are nowhere in the context of the passage.

Hence option B is correct.

2. Refer to:

As per Finance Ministry data, India's ODI rose 56.1% year-on-year from \$6.8 billion in 2014-15 to \$10.6 billion in 2015-16, and further up by 39.37% to \$14.8 billion in 2016-17.

It is clear that the concerned dynamics were given by Finance Ministry and not by IBEF. Thus statement I is not true.

The government will review existing guidelines and processes and bring out a coherent and integrated ODI policy."

It is clear from the underlined text that the government will review *existing* guidelines of ODI policy. Thus statement II is false.

The proposed Outward Direct Investment (ODI) policy may contain provisions to make it easy for many Indian firms, envisioning ambitious plans to transform themselves into multi-national companies (MNC), to go global and expand.

It is clear that the proposed policy may have such transforming effect and not the current policy.

Thus statement III is also false.

Since none of the statements is true.
Hence option E is correct.

3. Refer to:

With rising M&A activity, companies will get direct access to newer and more extensive markets, and better technologies, which would enable them to increase their customer base and achieve a global reach.

With the above highlighted text, it is clear that exposure to new markets is a reason for rise in customer base. Thus statement II is true.

However, statement I is not even mentioned in the passage, thus this can't be constituted as a reason to higher customer base.

Whereas statement III talks about higher brand value which may indirectly raise customer base, but is not mentioned in the passage. Thus will not be considered true.

Since statement II is true only.

Hence option C is correct.

4. Refer to:

Currently, the jurisdiction over ODI is mainly with the RBI, and the concerned law here is the Foreign Exchange Management Act.

Thus statement I is not true.

Top ten ODI destination countries in FY'15, FY'16 and FY'17 included Mauritius, Singapore, the U.S., the UAE, the Netherlands, the U.K, Switzerland, Russia, Jersey and British Virgin Islands.

Thus statement II is untrue.

.. policy measures by way of removing hindrances and providing broad support (such as financial and technological), especially to firms with small foreign investment intensities (small overseas investment positions) can help improve firms' competitiveness, export earnings and sales. It added, "This support can also be targeted towards export firms particularly if they are planning for technology-seeking ODI.

Thus statement III is not true.

Hence option D is correct.

5. "Money laundering" is not directly quoted in the passage, rather one of its phenomena is used at a point where Round-tripping of funds is mentioned. Thus it can't be a suitable title.

"Avenues of ODIs" are mentioned in the last paragraph only. Thus it's not an appropriate choice.

"Regulators of Outward Direct Investment" is the least talked topic. Thus there is no point of option E being a suitable title.

Between options A and C, Option A is the most appropriate choice as it covers both the negatives and positives about ODI as mentioned in the passage.

Option C though mentioned in most of the parts of the passage but it covers only one aspect i.e. internationalization out of the various talked like- ODI avenues, cons of ODI etc. in the passage. This makes it inappropriate choice.

Hence option A is correct.