

Ontogenesis of Banking and Finance

Dr. Ruchi M. Joshi

Dr. Shailesh K. Dwivedi



World Lab Publication

E-mail : worldlabpublication@gmail.com

www.worldlabpublication.com

TF-2 Sec-1, Vasundhara, Ghaziabad,
Uttar Pradesh 201012 Phone: 9810080056

Copyrights © Editors

All rights reserved. No part of this publication may be reproduced or transmitted, in any form or by any means, without permission. Any person who does any unauthorized act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

Disclaimer: The views expressed in the articles are those of the Authors/contributors and not necessarily of the editors and publisher. Authors/contributors are themselves responsible for any kind of Plagiarism found in their articles and any related issues.

© Editors : Dr. Ruchi M. Joshi
Dr. Shailesh K. Dwivedi
Publisher : World Lab Publication
Address : TF-2 Sec-1, Vasundhara,
Ghaziabad, Uttar Pradesh 201012
Phone : 9810080056, 9310388806
E-mail : worldlabpublication@gmail.com
Website : www.worldlabpublication.com
Title : Ontogenesis of Banking and Finance
Edition : 2021
ISBN : 978-93-90734-48-1
Price : 500/-
Printed in : India

10. Foreign Direct Investment – A Backbone For A Nation's Economy	136
<i>Dr. G. Sowmiya & Dr. G. Sindhu</i>	
11. Impact covid-19 on digital payments in India: A selected study of Uttarakhand	151
<i>Dr. Mithilesh Kumar Pandey & Dr. Amit Agrawal</i>	
12. Information Technology and Its Application in Different Areas of Indian Economy.....	180
<i>Mr. Ramshankar Varma</i>	
13. Derivatives	180
<i>Dr. S. Kavitha</i>	
14. Distribution and Market Size of Foreign Direct Investment in India: A Study.....	196
<i>Dr. Anamika Tiwari & Harsha Sahu</i>	
15. NBFCs – The Game Change in Credit Lending in India	207
<i>Dr. Rajesh Gupta</i>	
16. Financial Distress in Airline Industry in India – An Assessment	219
<i>Dr. Bharat Ankur Dogra</i>	
17. India's Vision: Convert Crises into an Opportunity.....	235
<i>Dr. Jaya Chawla</i>	
18. Status of NPAs in Indian Banks	241
<i>Dr. Kabir Sharma</i>	
19. Digital Banking: On the go and fingertips! "Aim to make people's lives better."	252
<i>Dr. Nishith Nagar & Ms. Eshima Ghai</i>	





DISTRIBUTION AND MARKET SIZE OF FOREIGN DIRECT INVESTMENT IN INDIA: A STUDY

Dr. Anamika Tiwari

Assistant Professor

Department of Commerce,

Guru Ghasidas Vishwavidyalaya, Bilaspur (C.G.)

Harsha Sahu

Assistant Professor

Department of Management Studies,

Guru Ghasidas Vishwavidyalaya, Bilaspur (C.G.)

ABSTRACT

Foreign Direct Investment (FDI) is one of the significant moneymaking causes for the economic progress and expansion of any country. In India with the coming of LPG policy after the crises of 1991, the percentage of FDI in different sectors has considerably increased. The foreign policy and healthy business environment of our government has guaranteed the continuous flow of foreign capital in the country. Today, we are the fifth largest recipient of FDI globally as per the data received from the United Nations Conference on trade and development even during the Covid-19 pandemic. Hence, in

this paper we critically examine how distribution as well as market size of FDI in India has significantly increased over a period of time since, economic crises. Moreover, to assess the impact **government's efforts** made towards FDI for the economic development of the country.

Keywords: *Distribution, Foreign Direct Investment, Government, Market Size, Sector.*

INTRODUCTION

FDI stands for Foreign Direct Investment. It is a type of investment made by a foreign entity into a business of another nation. It is a kind of controlling ownership of a business. It's a wide term and comprises takeovers, mergers, acquisitions, joint ventures, participation and investments. Thus, it is a summation of short-term capital, long-term capital and equity capital. It is one of the most important sources of income for developing any nation. Under this Foreign companies come and invest directly in favorable businesses to take benefits. With the implementation of LPG policy in India after 1991 economic crises, FDI has gradually increased. This has helped our nation quiet well to overcome the economic crises. Apart from developing India economically, FDI has also invited technical know-how and has generated millions of jobs for Indians. The Government of India took several measures regarding relaxation of rules and regulations related to FDI in the latest years. The norms associated with different sectors, for example, defense, oil refineries, telecom, power exchanges, and stock exchanges, etc. were relaxed. Currently, we are in a superb situation to draw the attention of various nations of the world through our initiatives and therefore, once again budding as a global power. We are today the part of top 100-club on Ease of Doing Business (EoDB) and globally ranks number 1 in the green field FDI ranking. Our present government's encouraging policy, favorable business environment and cheaper wages have made sure that foreign investments and resources keeps flowing into India. Recently, due to COVID-19 pandemic, Indian government made certain

changes in its FDI policy in order to save companies in India from acquisitions and takeovers by foreign competitors. The purpose is not to limit markets, but the policy want to make sure that from now onwards FDI will directly be monitored by Ministry of Commerce and Industry.

Objectives of the study

- To study the distribution of FDI among different sectors in India
- To assess the market size of FDI in India.
- To study the **Government Initiatives** made towards the promotion of FDI in India.

Methodology

In the present study the secondary data is used. The data have been collected from websites, online articles, journals, etc. to study the distribution and market size of FDI in India as well as the steps taken by the government to encourage FDI in India.

Distribution of FDI among different sectors in India

- FDI enters into India basically from two routes, i.e.

1. AUTOMATIC ROUTE:

- FDI accepted by the companies functioning in India from this means does not need the prior permission from either the government or RBI. They don't need to file any application.
- Sectors in India, which fall under Automatic route category are depicted in the table below:

S.No.	Sector	FDI Allowed
	Cable Networks	49%
1	Infrastructure Company in the Securities Market	49%
2	Insurance	49%
3	Power Exchanges	49%
4	Pension	49%

	Air Transport Services	49%
5	Petroleum Refining (By PSUs)	49%
6	Airports	100%
7	Credit Information Companies (CIC)	74%
8	Medical Devices	100%
9	E-commerce activities	100%
10	Construction Development: Townships, Housing, Built-up infrastructure	100%
11	Industrial Parks - new and existing	100%
12	Telecom services	100%
13	TRADING	100%
14	Non-Banking Finance Companies (NBFC)	100%

Table 1: Sectors covered under Automatic route

2. GOVERNMENT ROUTE:

- FDI received from this route requires the compulsory permission from the government of India. Here, the companies have to file an application via Foreign Investment Facilitation Portal. There application may be accepted or rejected by the government on the basis of the discussion held by Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce.
- Sectors falling under the Government route category are illustrated in the table below:

S.No.	Sector	FDI Allowed
1	Banking & Public sector	20%
2	Print Media (publishing of newspaper, periodicals and Indian editions of foreign magazines dealing with news & current affairs)	26%

3	Up-linking of 'News & Current Affairs' TV Channels	26%
4	Broadcasting Content Services	49%
5	Defence	49%
6	Private Security Agencies	49%
7	Up-linking of Non-'News & Current Affairs' TV Channels/Down-linking of TV Channel	100%
8	Print Media (publications/ printing of scientific and technical magazines/ specialty journals/ periodicals and facsimile edition of foreign newspapers)	100%
9	Multi-Brand Retail Trading	51%
10	Core Investment Company	100%
11	Food Products Retail Trading	100%
12	Mining & Minerals separations of titanium bearing minerals and ores	100%
13	Satellite (Establishment and operations)	100%

Table 2: Sectors covered under Government route

- FDI RESTRICTED
- In India, there are few a sectors where FDI is not at all permitted through any means.
- These sectors are shown in the table below:

S.No.	FDI Prohibited in Sectors
1	Atomic Energy Generation
2	Agricultural/Plantation Activities (except horticulture, fisheries, pisciculture, animal husbandry, etc.)
3	Cigars/Cigarettes/ Any other related to tobacco industry
4	Gambling/Betting Business
5	Housing and Real Estate (except townships, commercial projects, etc.)
6	Investment in Chit Funds
7	Lotteries (online/private/government, etc.)

8	Nidhi Company
9	Trading in TDR's

Table 3: FDI Prohibited Sectors

Market Size of FDI in India

With the relaxation of norms concerning FDI, the market size of FDI in India has increased from \$97 million in 1990-91 to more than \$81,722 million in 2020-21, as per RBI. We are today the part of the top 100 club on Ease of Doing Business (EoDB). During 2014-15 the inflow of FDI in India was \$45.15 billion. Since then it has increased constantly. Besides, it was observed that the total FDI inflow increased from \$266.21 billion in 2007-14 to \$440.01 billion in 2014-21, i.e. a hike of 65.3% was noted. Moreover, from 2007-14 to 2014-21, the FDI equity also rose from \$185.03 billion to \$312.05 billion i.e. a hike of 68.6% was observed. During the financial year April 2020 to March 2021, our nation drew \$76.30 billion FDI inflow. It is the maximum FDI, which India attracted during the financial year. It is 19% higher in comparison to what we received during 2019-20 i.e. 62.72 billion. We are the fifth largest recipient of FDI inflows globally. During April to December the inflows were \$67.54 billion, which was 22% higher if we compare it with the first nine months of 2019-20, which was around \$55.14 billion.

If we look at the last 21 years, i.e., from April 2020 to March 2021, the total FDI inflows recorded in India was \$763.5 billion. We received almost around 50% of the total FDI, of the last 20 years, i.e., \$319 billion inflows from April 2014 to September 2019 in just 5 years. A sum of \$58.37 billion was obtained as FDI inflows during the financial year 2020-21. This was 22% greater if we compare it with what we collected in the first 8 months of 2019-20. During April- November 2020, FDI equity inflows achieved was \$43.85 billion. This was 37% larger in contrast with what we have drawn during April-November 2020 i.e., \$32.11 billion.

As per the information received from the Department for Promotion of Industry and Internal Trade (DPIIT), India obtained US\$ 529.63 billion FDI equity inflow from April 2000 to March 2021. This all was made feasible because of the government's flexible initiatives towards the FDI policy and ease of doing business in India. India has obtained the maximum FDI inflow from the countries such as Singapore, the US, Mauritius, the UAE, Cayman Islands, the Netherland and the UK during April 2020 to March 2021. Similarly, if we evaluate the states during the same phase, Gujarat was the largest FDI inflow receiver followed by Maharashtra, Karnataka and Delhi.

Government Initiatives

From time to time, our government is revising its FDI policy by introducing flexibility in the norms. The objective is to boost FDI equity inflow in India. With the coming of the NDA Government in power in 2014, Prime Minister of India Shri Narendra Modi launched the "Make in India" campaign on 25 September, 2014 in order to turn our nation into a Global Manufacturing Hub. This movement not only raised investment, but also created millions of jobs throughout the country, provided opportunity for skill development, encouraged creativity and innovation and contributed in boosting the GDP. Under this campaign when government relaxed the FDI norms of 25 sectors, for instance, FDI in insurance sector was raised from 26% to 49%, FDI in defense manufacturing under the automatic route from 49% to 74%, NRIs were permitted to purchase up to 100% stake in Air India, etc., there was observed a growth of 48% in FDI inflow on April 2015. In 2013, rank of India in terms of FDI inflow was 15th, but after the introduction of Make in India campaign, the rank improved and our country jumped to 9th position in 2014. In the year 2015 we joined the club of the top destination for FDI.

Apart from Make in India, our government has come up with one further new initiative India Investment Grid (IIG).

This is an innovative platform that provides opportunities in connecting directly with the prospective businesses, promoters and investors for encouraging foreign investments. This portal provides information and data about the projects of Indian promoters for attracting foreign investments. Moreover, this grid supports NIP i.e., National Infrastructure Pipeline which tries to improve quality of life of people by offering them best infrastructure facilities. This how it is making efforts in attracting foreign investments. This scheme has not only facilitated ease of doing business in India, but has also brought tremendous benefits in terms of new job opportunities, latest technologies, managerial know-how and innovative ideas.

Even during the Covid-19 pandemic, when businesses throughout the globe were suffering, our government tried protecting Indian industries from FDI, by passing a rule on 18th April 2020, stating that, any nation who is sharing a land border with our nation will undergo strict scrutiny from the Ministry of Commerce and Industry before entering into any Foreign Direct Investments. Likewise, Ministry of Finance raised the FDI limit in insurance sector to 74% in May 2021. This decision is likely to promote and benefit many private health insurance firms, private life insurers and private non-life insurers all over the country.

CONCLUSION

The present study shows that, a wide range of sectors in India has been covered under FDI either through the government route or automatic route. The FDI limit has also been raised too much extent among different sectors to promote the foreign investments and to provide assistance as well as benefits to companies and businesses operating in India. Only a few sectors have been prohibited, where FDI is not permitted. Liberalization of norms associated with FDI and an increase in the limit have all contributed in boosting the market size of FDI in India. The total FDI inflow drawn from April 2020 to March 2021 was US\$ 59.64 billion. The

sectors which grabbed the maximum inflows were computer hardware and software chased by construction activities, service sector and trading. All this was made achievable because of the government initiatives such as launching of various campaigns such as Make in India, time to time revision of FDI policy, relaxation of rules and raising the FDI limits. The entire efforts of the government have brought tremendous benefits to the nation in the form of new employment opportunities, technological advancements, innovative skill and knowledge, creative ideas, contribution in GDP and economic wealth. In the upcoming years, as per CII and EY information we are supposed to capture FDI of US\$ 120-160 billion per year by 2025. On the whole FDI had an optimistic impact on the economy of the country.

REFERENCES

- Agrawal, G., & Khan, M. A. (2011). Impact of FDI on GDP: A comparative study of China and India. *International Journal of Business and Management*, 6(10), 71.
- Alam, I., & Mittal, A. (2014). Foreign direct investment and economic growth in India: An empirical analysis. *International Journal of Society and Humanities*, 4(1), 59–70.
- Alfaro, L. (2003). *Foreign direct investment and growth: Does the sector matter* (pp. 1–31). Boston: Harvard Business School.
- Aykut, D., & Sayek, S. (2007). The role of the sectoral composition of foreign direct investment on growth. *International Economics and Foreign Trade Politics*, 2(3), 33–64.
- Chakraborty, C., & Nunnenkamp, P. (2008). Economic reforms, FDI and economic growth in India: A sector level analysis. *World Development*, 36(7), 1192–1212.
- Lenka, S. K., & Sharma, P. (2015). FDI as a Main Determinant of Economic Growth: A Panel Data Analysis. *Annual Research Journal of Symbiosis Centre for Management Studies*, 1, January 2013-January 2014, 84, 9.
- Moran, T. H., Graham, E. M., & Blomström, M. (Eds.). (2005). *Does foreign direct investment promote development?* Peterson

- Business Standard (2021) “India receives \$64 bn FDI in 2020, fifth largest recipient of inflows: UN”, [Online: web] Accessed 21 Sept. 2021 URL: [https://www.business-standard.com/article/economy-policy/india-receives-64-bn-fdi-in-2020-fifth-largest-recipient-of-inflows-un-121062100305_1.html#:~:text=The%20Morning%20Show-,India%20receives%20%2464%20bn%20FDI%20in%202020,largest%20recipient%20of%20inflows%3A%20UN&text=The%20World%20Investment%20Report%202021,\(UNCTAD\)%2C%20released%20Monday.](https://www.business-standard.com/article/economy-policy/india-receives-64-bn-fdi-in-2020-fifth-largest-recipient-of-inflows-un-121062100305_1.html#:~:text=The%20Morning%20Show-,India%20receives%20%2464%20bn%20FDI%20in%202020,largest%20recipient%20of%20inflows%3A%20UN&text=The%20World%20Investment%20Report%202021,(UNCTAD)%2C%20released%20Monday.)
- Dayal Singh College-Delhi University Content (2020), “Foreign Investment in Indian Perspective”, [Online: web] Accessed 25 Sept. 2021 URL: <http://dsc.du.ac.in/wp-content/uploads/2020/04/FOREIGN-INVESTMENT-IN-INDIAN-PERSPECTIVE.pdf>
- India Brand Equity Foundation (2021), “Foreign Direct Investment (FDI)” [Online: web] Accessed 11 Sept. 2021 URL: <https://www.ibef.org/economy/foreign-direct-investment.aspx>
- Investment India (2021), “India Investment Grid”, [Online: web] Accessed 21 Sept. 2021 URL: <https://www.investindia.gov.in/india-investment-grid>
- PMINDIA (2021), “Major Initiatives”, [Online: web] Accessed 25 Sept. 2021 URL: https://www.pmindia.gov.in/en/major_initiatives/make-in-india/
- The Reserve Bank of India (2021) “Sector-specific policy for foreign investment, [Online: web] Accessed 24 Sept.

2021 URL: https://rbidocs.rbi.org.in/rdocs/content/pdfs/15MN16072015_AN1.pdf

- Wikipedia (2021), “Foreign Direct Investment in India”, [Online: web] Accessed 22 Sept. 2021 URL: https://en.wikipedia.org/wiki/Foreign_direct_investment_in_India
- Wikipedia (2021), “Make in India”, [Online: web] Accessed 23 Sept. 2021 URL: https://en.wikipedia.org/wiki/Make_in_India