



# drishti

## Investment Trends Monitor Report: UNCTAD

---

 [drishtias.com/printpdf/investment-trends-monitor-report-unctad](https://drishtias.com/printpdf/investment-trends-monitor-report-unctad)

### Why in News

---

According to the recent **Investment Trends Monitor Report** issued by the **United Nations Conference on Trade and Development (UNCTAD)**, global **Foreign Direct Investment (FDI)** collapsed in 2020 by 42% to an estimated USD 859 billion from USD 1.5 trillion in 2019.

Such a low level was **last seen in the 1990s** and is more than 30% below the investment decline that followed the **2008-2009 global financial crisis**.

### Key Points

---

- **Global Trend:**
  - **India and China:**
    - India witnessed a 13% year-on-year rise, the **highest among key nations**, in FDI inflows in 2020, China's rose by 4%.
    - In absolute terms, **China remained way ahead, with an inflow of as much as \$163 billion**, while **India's stood at \$57 billion**.
  - **Advanced Economies:**

The UK and Italy saw an over 100% crash each in FDI inflows, followed by **Russia** (96% drop), **Germany** (61%), **Brazil** (50%), the **US** (49%), **Australia** (46%) and **France** (39%).
  - **Developing Economies:**
    - Developing economies drew as much as **72% of global FDI** in 2020 – their highest share on record.
    - **Asian nations** did particularly well, **attracting USD 476 billion** in FDI in 2020.
- **Future Projection:**

The uncertainty about the **Covid-19** evolution **will continue to hamper global FDI inflows in 2021**, threatening sustainable recovery prospects.

- **Reason for the Rise in FDI in India:**

Inflows into **digital sector**. The sector has particularly high return capabilities in India as favourable demographics, substantial mobile and internet penetration, massive consumption along with technology uptake provides great market opportunity for a foreign investor.

- **India's Measures to Increase FDI:**

- **In 2020**, schemes like **production-linked incentive (PLI) scheme for electronics manufacturing**, have been notified to attract foreign investments.
- **In 2019**, the Central Government **amended FDI Policy 2017**, to permit **100% FDI under automatic route in coal mining activities**.
- FDI in manufacturing was already under the 100% automatic route, however **in 2019, the government clarified that investments in Indian entities engaged in contract manufacturing is also permitted under the 100% automatic route** provided it is undertaken through a legitimate contract.

**Contract Manufacturing:** Production of goods by one firm, under the label or brand of another firm.

- **Foreign Investment Facilitation Portal (FIFP):**

It is the online single point interface of the Government of India with investors to facilitate FDI. It is administered by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry.

## Foreign Direct Investment

---

- **About:**

- FDI is an **investment made by a firm or individual in one country into business interests located in another country**.
- The key feature of foreign direct investment is that **it establishes either effective control of, or at least substantial influence over, the decision-making** of a foreign business.

This makes it **different from portfolio investments** in which an investor merely purchases equities of foreign-based companies.

- **Importance:**

FDI is important because it **gives countries access to external capital, technology, market access and tax contributions**.

- **Types:** FDI are commonly categorized as being horizontal, vertical or conglomerate.
  - **Horizontal:**

A horizontal direct investment refers to the **investor establishing the same type of business operation** in a foreign country as it operates in its home country.
  - **Vertical:**

A vertical investment is one in which **different but related business activities from the investor's main business are established** or acquired in a foreign country, such as when a manufacturing company acquires an interest in a foreign company that supplies parts or raw materials required for the manufacturing company to make its products.
  - **Conglomerate:**
    - A conglomerate type of foreign direct investment is one where a **company or individual makes a foreign investment in a business that is unrelated to its existing business** in its home country.
    - Since this type of investment involves entering an industry the investor has no previous experience in, it often takes the form of a joint venture with a foreign company already operating in the industry.
- **Components:** FDI has three components, viz., **equity capital, reinvested earnings and intra-company loans.**
  - **Equity Capital:**

It is the foreign direct investor's **purchase of shares of an enterprise** in a country other than its own.
  - **Reinvested Earnings:**
    - Comprise the **direct investors' share** (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor.
    - Such retained profits by affiliates are reinvested.
  - **Intra-company loans or intra-company debt transactions:**

Refer to **short- or long-term borrowing and lending of funds** between direct investors (or enterprises) and affiliate enterprises.
- **Routes:** Routes through which India gets FDI:
  - **Automatic Route:** In this, the foreign entity **does not require the prior approval of the government.**
  - **Government route:** In this, the foreign entity has to **take the approval of the government.**

## United Nations Conference on Trade and Development (UNCTAD)

- **Establishment:**

UNCTAD is a permanent intergovernmental body established in 1964.

- **Headquarter:**  
It is a permanent intergovernmental body headquartered at Geneva in Switzerland.
- **Objective:**  
It promotes development-friendly integration of developing countries into the world economy.
- **Reports Published:**
  - **Trade and Development Report**
  - **World Investment Report**
  - The Least Developed Countries Report
  - Information and Economy Report
  - Technology and Innovation Report
  - Commodities and Development Report.

**Source: FE**