



## Sustaining FDI Inflows

*This editorial is based on [“How to Sustain the Post-Covid Surge in FDI Inflows”](#) which was published in [The Hindu BusinessLine](#) on 22/05/2022. It talks about the significance of the growth of FDIs in India and how can India sustain this growth.*

**For Prelims:** World Investment Report, Foreign Direct Investment (FDI), Make in India, Atmanirbhar Bharat, FPI

**For Mains:** FDI - Significance, FDI v/s FPI, Measures of sustain surge in FDI inflows

Despite the major slowdown in the global economy induced by the Covid-19 pandemic and the projections of the [World Investment Report](#) of expected decline in [Foreign Direct Investment \(FDI\)](#) flows of 30-40%, the resilient **Asian economies witnessed favourable FDI flows** which were rather **higher than the global average**.

Additionally, **South Asia experienced a robust surge** in FDI during this period, with **India seeing a 27% rise**. Judicious and quick policy initiatives will facilitate more foreign investments and in-turn enhance [India's potential as a global manufacturing hub](#).

### What do We know about FDI?

- A Foreign Direct Investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country. FDI **lets an investor purchase a direct business interest in a foreign country**.
  - Investors can make FDI in a number of ways. Some common ones include **establishing a subsidiary** in another country, **acquiring or merging** with an existing foreign company, or **starting a joint venture partnership** with a foreign company.
- Apart from being a critical driver of economic growth, FDI has been a **major non-debt financial resource for the economic development** of India.
  - The Government of India has taken many initiatives in recent years such as [relaxing FDI norms across sectors such as defence](#), PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

### What is the Growth Rate Scenario of FDI Inflows to India?

- An analysis of the recent trends in FDI flows at the global level and across regions/countries suggests that **India has generally attracted higher FDI flows** and **continued to remain among the top attractive destinations** for international investors in line with its [gradual liberalisation of the FDI policy](#) as part of the cautious capital account liberalisation process.
- In 2017-18, the **inflows surpassed \$60 billion for the first time ever** and the Department of Promotion of Industry and Internal Trade (DPIIT) put FDI growth at **14% in 2019-20**, the highest in

four years.

- In 2021, the **total FDI inflow in 2020-21 was \$81.7 billion**, up 10% over the previous fiscal.
- The FDI in the **FY 2021-22 has touched a "highest ever" figure** of \$83.57 billion.
- Corporate giants like Silver Lake, Google, Facebook, Foxconn, Saudi Arabia's PIF, General Atlantic Singapore, Hitachi, Walmart and Catterton are **expected to invest billions of dollars in the Indian economy**.

## What Factors have Facilitated Higher FDI Inflows?

- **'Make in India'** and **'Atmanirbhar Bharat'** campaigns coupled with strengthening of **India's footing in global supply chains** have given momentum to FDI inflows over the past few years.
- The first wave of the Covid-19 pandemic prompted around 1,000 **companies to shift their base out of China**, with nearly 300 of them being in the areas of medical and electronic devices, mobiles and textiles.
  - For India, companies like Lava International with over 600 employees clarified its intention to shift its base to India from China.
- In most sectors of the economy, **India has one of the most liberalised FDI laws** in the world, allowing foreign **investments of up to 100% through the automatic method**.
  - In its FDI policy, **India has taken a negative list approach**, stating only those sectors and activities where foreign investment is regulated, whereas sectors not named in the document are open to obtaining 100% FDI under the automatic method.
- Higher FDI inflows have been possible due to the **liberal and attractive policy regime for the investors**, a good business climate and reduced regulatory framework.

## What will be the Impact of these FDI Inflows?

- Considering the impact of the recent surge in the FDI inflows on macroeconomic variables, there will be an **estimated increase of 5.68% in India's GDP**.
- The **industrial output of sectors like metals, construction**, machinery and equipment, motor vehicle parts, computer, electronics, and optical products are expected to receive a **huge boost relative to others**.
- **Exports are also expected to witness a rise**, because of the FDI-fuelled increase in scale, **quality standards and technology transfer**, along with **enhanced employment opportunities**.

## How can India Retain this Growth?

- **Government policies/decisions are of crucial importance** in creating a conducive environment for global investors. The disruptions induced by the pandemic have given opportunities for India to expand its global footprints.
  - The government is striving to strengthen the FDI environment through an array of policy initiatives and reforms at all levels.
  - This also has to be complemented by a **sound trade policy to boost exports** further, encourage **inclusive development**, and **incentivise R&D** (research & development) to make our industry **globally competitive**.
- FDIs have more potential to facilitate the growth of the Indian economy than **Foreign Portfolio Investment (FPI)**. It should be ensured that **India remains an attractive, safe, predictable destination** for serious, long term investors.
  - A level playing field is necessary if we want continued foreign investments. Sneaking loyalty towards local players should be avoided.

## What should be the Main Areas of Focus?

- **Concentration to a Few States:** FDI has been concentrated in a few Indian states. The **rapidly growing states receive 60-70% of FDI inflows** into India: Andhra Pradesh, Delhi, Karnataka, Maharashtra, and Tamil Nadu. Even among these states, there is **considerable heterogeneity**.
  - It is also these very states that are most successful in converting FDI approvals into actual

inflows.

◦ Bringing other states into the ambit of FDI inflows should be one of the key focus areas.

- **Role of States:** The [federal structure in India](#) empowers the **states to design their own investment policies to attract FDI**, along with instituting specific incentives for certain sectors.
  - For instance, **Karnataka** has been aggressive in attracting FDI and has outlined a series of policies, such as **investment subsidies, exemptions for export-oriented units**, and refunds and **fiscal incentives for specific industries** such as IT, biotechnology, and business process outsourcing.
  - Example of Karnataka can be emulated by other states.
- **Equally Focussing Other Important Factors:** The other important factors influencing FDI into India are **broader economic policies** including [corporate taxes](#), **trade openness**, and other **business climate issues**.
  - India's progress of liberalising its FDI regime is a necessary but not a sufficient condition to attract significant FDI inflows.
  - With the current international attention on India's tremendous potential for FDI, it would be an **opportune time to push for rapid progress on structural reforms** to tremendously increase FDI inflows.

### ***Drishti Mains Question***

"The FDI inflows to India in the FY 2021-22 touched a "highest ever" figure of \$83.57 billion." Discuss the measures that India can take to sustain this surge in the FDI inflows.

## **UPSC Civil Services Examination, Previous Year Questions (PYQs)**

**Q. With reference to Foreign Direct Investment in India, which one of the following is considered its major characteristic? (2020)**

- (a) It is the investment through capital instruments essentially in a listed company.
- (b) It is a largely non-debt creating capital flow.
- (c) It is the investment which involves debt-servicing.
- (d) It is the investment made by foreign institutional investors in the Government securities.

**Ans: (b)**