



# India Emerges as Most Attractive Emerging Market for Investment

**For Prelims:** [foreign direct investment](#), [emerging market](#), [ease of doing business](#).

**For Mains:** Growth of India as Emerging Market for Investment, Challenges and Risks associated with investing in emerging markets

**Source:** [TH](#)

## Why in News?

According to **Invesco Global Sovereign Asset Management Study** by Invesco (an independent global investment management firm), India **has surpassed China** to become the **most attractive [emerging market](#) for investment in 2023**.

- The report emphasizes **India's attractiveness to sovereign wealth funds** due to its strong demographics, political stability, and proactive regulation.

## What are the Key Highlights of the Report?

- India is ranked as the most attractive emerging market for investing in emerging market debt.
- India offers **attractive yields, a favorable currency outlook, and strong macroeconomic fundamentals** for debt investors.
- India is ranked among the **top destinations for increasing exposure in both public and private markets**.
- **India and South Korea are the most preferred markets** for increasing exposure in **public equities**.
- **India and Brazil** are the most favored markets for increasing exposure in **private equity**.
- India, along with Mexico and Brazil, is benefiting from increased [foreign direct investment](#), supporting currencies, and domestic assets while funding [current account deficits](#).
- The report acknowledged the **challenges and risks of investing in emerging markets and** advised sovereign investors to carefully assess and manage them.

## What Makes India Attractive to Investors?

- **Business and Political Stability:** India is considered a **stable destination for sovereign investors** due to **improved business and political stability**.
- **Ease of Doing Business:** India has implemented reforms to **enhance the [ease of doing business](#)**, including **lowering [corporate tax rates](#)** and **liberalizing [foreign direct investment norms](#)**.
- **Production-Linked Incentive Schemes:** India has introduced [production-linked incentive schemes](#) to attract foreign investment in various sectors.
- **Fast-growing Demographics:** India's **large and young consumer market**, skilled labor force, and potential for **innovation and entrepreneurship** make it an attractive destination for

investors.

- **Proactive Regulation:** India has taken steps to address challenges faced by sovereign investors, such as **taxation, [currency volatility](#), and legal disputes.**
- **Friendly Investment Environment:** India is known for its **openness and willingness to engage with sovereign investors**, offering various opportunities for collaboration and investment.

## What are the Challenges and Risks of Investing in India?

- **Inflation:** Rising inflationary pressures pose a **short-term risk**, leading to tighter **monetary policy, higher interest rates, lower asset prices, and currency depreciation** in emerging markets like India.
- **Geopolitical Risk:** Increasing **geopolitical tensions** can result in trade wars, sanctions, conflicts, or cyberattacks, affecting trade flows, supply chains, energy security, and market sentiment.
- **Supply Chain Disruptions:** The **[Covid-19 pandemic](#)** has highlighted the vulnerabilities of global supply chains, impacting the **availability and cost of raw materials**, intermediate goods, and final products, which can affect **economic activity and inflation.**
- **Climate Change:** **[Climate change](#)** presents **physical risks to infrastructure, agriculture, health, and biodiversity**, as well as transition risks to energy sources, industries, regulations, and policies. These risks can have implications for investments in India.

## Way Forward

- Strengthen **diplomatic relations** and engage in **bilateral and multilateral partnerships** to promote trade, investment, and technology transfer, further enhancing India's global attractiveness as an investment destination.
- Continue **implementing reforms to improve the ease of doing business**, reducing bureaucratic hurdles, simplifying procedures, and enhancing transparency to facilitate foreign investments.
- Embrace **sustainable practices and invest in [renewable energy](#), clean technologies, and climate resilience measures** to mitigate environmental risks and attract socially responsible sovereign investors.
- Invest in **skill development programs** and education to nurture a highly skilled workforce and foster innovation, thereby enhancing India's competitive advantage and attracting long-term investments.
- Continue proactive regulation to address challenges faced by sovereign investors, including tax reforms, currency volatility management, and efficient dispute resolution mechanisms.

## UPSC Civil Services, Previous Year Question (PYQ)

### Q1. Consider the following actions which the Government can take: (2011)

1. Devaluing the domestic currency.
2. Reduction in the export subsidy.
3. Adopting suitable policies which attract greater FDI and more funds from FII's.

### Which of the above action/actions can help in reducing the current account deficit?

- (a) 1 and 2
- (b) 2 and 3
- (c) 3 only
- (d) 1 and 3

Ans: (d)

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