

## Foreign Investments Flows are Slowing Down

### What is the issue?

\n\n

\n

- Reports have confirmed that all forms of Foreign Investment in India (including the priced FDI) are slowing down.

\n

- This is despite the positivity in the global economy and the government's strong rhetoric in this domain.

\n

\n\n

### What is the state of FDI flows?

\n\n

\n

- **What** - Foreign direct investment (FDI) is prized over other forms of capital flows because it directly adds to the productive base of the country.

\n

- As a long-term and patient monetary stream, it is contrasted against the "hot money" that comes as portfolio investments, which is more temporary.

\n

- **Data** - According to recent data from the "Department of Industrial Policy and Promotion" (DIPP), growth rate of FDI hit a 5-year low in 2017-18.

\n

- It grew by only 3%, to \$44.85 billion this year, which is despite the big-ticket purchase of Essar by Rosneft, for \$13 billion.

\n

- This trend was also confirmed in a report from the "United Nations Commission on Trade and Development" (UNCTAD).

\n

- According to UNCTAD, FDI to India actually fell in the calendar year 2017, from \$44 billion the previous year to \$40 billion.

\n

- But on the contrast, UNCTAD notes that outward FDI from India more

than doubled during the same period.

\n

\n\n

## **How does this trend contrast against Modi government's rhetoric?**

\n\n

\n

- The current government has been loudly trumpeting its efforts to make India more investment-friendly and prides its pro-business credentials.
- But statistics suggest that not just foreigners, but even Indian investors are less likely to invest in India presently, as indicated by outward FDI flows.
- More specifically, while FDI flows have declined overall internationally, the developing world at large has largely been able to retain its investment flows.
- As some developing countries have even seen considerable spikes in FDI flows, the government can't state external factors for India's FDI trends.
- Interestingly, India's standing in World Bank's "Ease of Doing Business" ranking has been steadily raising, but it isn't being reflected on the ground.
- This may be because the government is focusing on merely tailoring its policies to improve rankings without actually improving business friendliness.
- The government seems to have given up too soon on "deep structural reforms" that it enthusiastically embraced at the start of its tenure.

\n

\n\n

## **What is the way ahead?**

\n\n

\n

- There is no scope for any Indian government to abandon reforms at this point in India's development due to the complex market scenario at play.
- **Structural** - The percentage of permissible FDI has been raised in

various sectors, but the processes for investors to enter India remains cumbersome.

\n

- The abolition of the Foreign Investment Promotion Board (FIPB) was intended to simplify processes by removing a bottleneck.

\n

- But the direct ministerial approval regime that is now operational doesn't seem to be having the desired results.

\n

- **Changing Wind** - The impressive 6% plus GDP growth in the previous decade had made India one of the most sought after investment destination.

\n

- But the past record seems have made our policy makers arrogant regarding the potency of India's economy to attract investments.

\n

- Considering the current situation, India would do good to give up arrogance and be more respectful of investor concerns (like dispute resolution).

\n

- It is important to note that, a sustained increase in foreign investments is vital for generating jobs for the millions entering the workforce every year.

\n

\n\n

\n\n

**Source: Business Standard**

\n\n

\n

