

## India's FDI Flows

### Why in news?

In FY23, India received lower Foreign Direct Investment (FDI) equity inflows than FY22 which raises the situation to analyse India's FDI status.

### What is Foreign Direct Investment (FDI)?

- **FDI** - It is a type of *cross-border investment* in which an investor from one country establishes a lasting interest in an enterprise in another country.
- FDI remains vital for bolstering domestic industry, stimulating growth, and enhancing global competitiveness.
- **Investments under the Automatic route**
  - It require *no prior permission*, resulting in minimal monitoring.
  - It only require the investor to inform the *Reserve Bank of India (RBI)* after the investment is made.
  - FDI up to 100%, under the automatic route is permitted for agriculture, manufacturing, airports, e-commerce, pharmaceuticals, and railway infrastructure.
- **Investments under the Government route**
  - Prior to investment, approval from the Government of India is required.
  - It is permitted in sectors like defense & telecom (beyond 49%), mining (100%) and print media (26%).
- **Security clearances**
  - It apply only to specific areas such as broadcasting, defense, private security, civil aviation, and mining.
  - *Ministry of Home Affairs (MHA) and Ministry of External Affairs (MEA)* overseeing scrutiny and security clearance.

### Status of India's FDI

- **Total FDI** - In terms of market value, the FDI amounted to Rs 50 lakh crore in FY23.
- **Inward FDI** - *The USA* was the largest source of inward FDI followed by Mauritius, the UK and Singapore which collectively accounted for 60% of the inward FDI in the country.
- **Outward FDI** - *Singapore* was the largest beneficiary of outward direct investment (ODI) by Indian firms.
- **Sector wise** - The *manufacturing sector* continued to attract the largest share of FDI equity, both at market value as well as at face value.
- **Services** - Among services, *information & communication and financial & insurance*

*activities* were the major FDI recipient sectors.

- **Ratio of inward to outward DI** - In terms of market value, ODI growth outpaced the growth in FDI and, as a result, the ratio of inward to outward DI stood at 5.5 times in March 2023.

**Source-** RBI's Census on Foreign Liabilities and Assets of Indian Direct Investment Entities

### What are the contemporary issues in FDI inflow?

- **Decline in FDI inflows** - It is due to
  - Spill over of the COVID-19 pandemic
  - Global headwinds such as the Russia-Ukraine conflict and global recessionary pressures
- **Regional disparities in FDI** - The skewed distribution of FDI over the years hamper the development and competitiveness of States.
- The Southern and Western States of Gujarat, Maharashtra, Tamil Nadu, and Karnataka boast more favourable investment environments compared to their northern counterparts.

*In 2023, the top 5 States attracting FDI include Maharashtra, Karnataka, Gujarat, Delhi, and Tamil Nadu.*

- **Lack of clarity-** FDI Policy 2020 required government approval when the beneficial owner investing in India belonged to any of the 7 neighbouring countries.
- However, a clear definition of a '*beneficial owner*' is missing in the FDI Policy and causes ambiguity to both domestic firms as well as foreign investors.
- **Lesser FDI in Greenfield projects** - *Higher FDI in brownfield* projects doesn't substantially boost employment or capacity as compared to Greenfield enterprises.
- **Transfer of ownership** - FDI at times leads to ownership transfer from Indian companies to foreign entities.
- **Reverse repatriations and outflows** - They are also quite sizable.
- **Risk of exploitation** - Dependence on foreign solutions increases the risk of exploitation underscoring the need for proactive security measures.

### Can India rebound its investment potential?

According to the *2023 Economic Survey*, a rebound in incoming FDI is expected due to various factors like

- Sectoral production-linked incentive (PLI) schemes
- Growth prospects in tier-2 and tier-3 cities
- New investment facilitation measures like the *National Single-Window System (NSWS)*
- High-tech industrial development
- Higher market size owing to larger population

- Advancements in the digital and technology ecosystem
- **Foreign Investment Facilitation Portal (FIFP), 2017** - It *replaced Foreign Investment Promotion Board (FIPB)* for faster processing via approval route.
- **Consolidated FDI Policy 2020** - Amendment to this policy aimed to prevent opportunistic takeovers of weakened domestic companies by foreign firms during the Covid-19 pandemic.
- It stated that countries sharing land borders with India could no longer invest under the automatic route and must seek approval for proposed investments.

*India's neighbouring countries are China, Bangladesh, Pakistan, Bhutan, Nepal, Myanmar, and Afghanistan.*



### What lies ahead?

- **Focus on Greenfield activities** - Increase FDI in high-tech Greenfield activities which helps in capacity building, managerial improvement and skill development in India.
- **Transparent regulatory framework** - An impartial, uniform screening mechanism for investment promotion and investment protection need to be developed.
- **Independent body for monitoring investments** - It will recognise risk parameters

and nation's long-term interest while monitoring FDI inflows.

- **Holistic economic approach** - It is needed to balance the nation's domestic potential and resilience with economic interests without explicitly hampering the interest of the foreign investors.

## References

1. [The Hindu Business Line| Analysing India's FDI](#)
2. [India Briefing| India's FDI in 2023](#)
3. [RBI | Census on Foreign Liabilities and Assets of Indian Direct Investment Entities](#)

