India's FDI potential

What is the issue?

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- Gross FDI flows into India are expected to triple in the coming decade.
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- A glimpse at the factors which make India a favourable FDI destination thus becomes vital.
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What factors give India this potential?

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- **Domestic Factors** - Earlier FDI destinations in open economies in Asia showed a vertical trend because of their presence in the overall supply chain.
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- However, the potential in India at present attracts more horizontal FDI i.e. FDI largely attracted by the growing domestic market rather than for just exports. The factors are -
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1. Presence of a large market.
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2. Favourable demographics.
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3. Rising per capita income.
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4. Rising number of middle-income consumers.
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5. Low penetration of consumer goods and services suggesting further potential.
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- **Reforms** by the government also made India investment friendly. These include -
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1. GST
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2. FDI liberalisation.
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3. public spending on transport infrastructure.
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4. bankruptcy laws.
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5. Commitment to fiscal consolidation.
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6. RBI’s focus on lowring inflation
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7. Crackdown on corruption.
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8. The scrapping of obsolete laws.
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9. Online clearances, etc.
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- **Global factors** -
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1. Sparse growth opportunities globally.
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2. Rising labour costs in china.
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3. Lower manufacturing and non-manufacturing wages in india than they are in china.
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4. An ageing population in north-east asia.
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5. Expensive global supply chains in terms of manufacturing, in major countries in Asia.
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- A comprehensive overhaul of the transportation sector including inland waterways, ports and shipping investments lowered the costs and enabled higher efficiency.
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- The growing industry of renewable energy also attracts the next largest FDI commitment.
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Source: Business Standard

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