

## AIR Spotlight: India and Foreign Direct Investment

AIR Spotlight is an insightful program featured daily on the All India Radio Newsonair. In this program, many eminent panelists discuss issues of importance which can be quite helpful in [IAS exam](#) preparation. This article features a discussion on record inflow of FDI to India.

### Participants:

1. Sharath Kohli, Economic Analyst
2. Sonu Sood, AIR Correspondent

**Context:** India received the highest ever [Foreign Direct Investment \(FDI\)](#) inflow of USD 83.57 billion in the Financial Year 2021-2022.

### Introduction:

- India ranks 7th among top 20 host economies for 2021, in terms of FDI according to the World Investment Report by UNCTAD.
- FDI inflows have increased 20 times in the last 2 decades.
- FDI Equity inflow in Manufacturing Sectors has increased by 76% in FY 2021-22 from 2020-21.

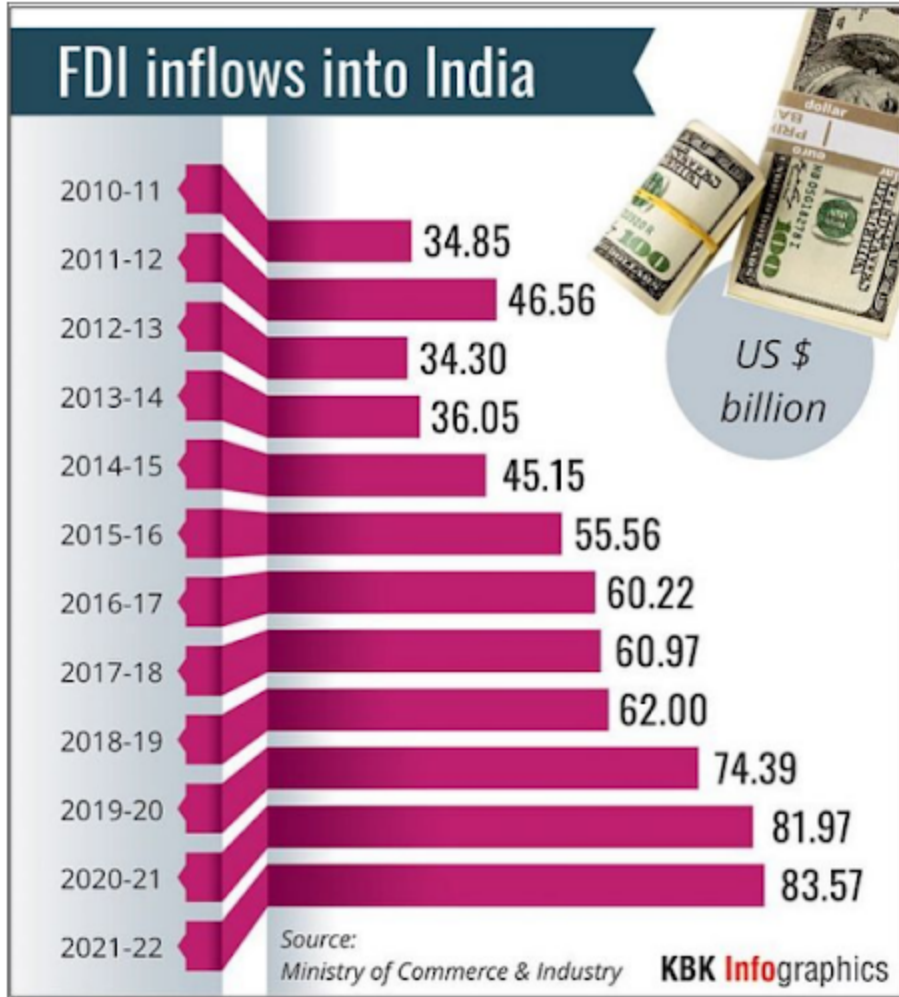


Image Credit: Rediff.com Statistics:

**Top Investor Countries:**

1. Singapore-27%
2. U.S.A -18%
3. Mauritius-16%

**Top Sectors:**

1. Computer Software & Hardware-24.6%
2. Services Sector- 12%
3. Automobile Industry-12%

**Top Destinations:**

**FDI INFLOW (₹ CRORE)**

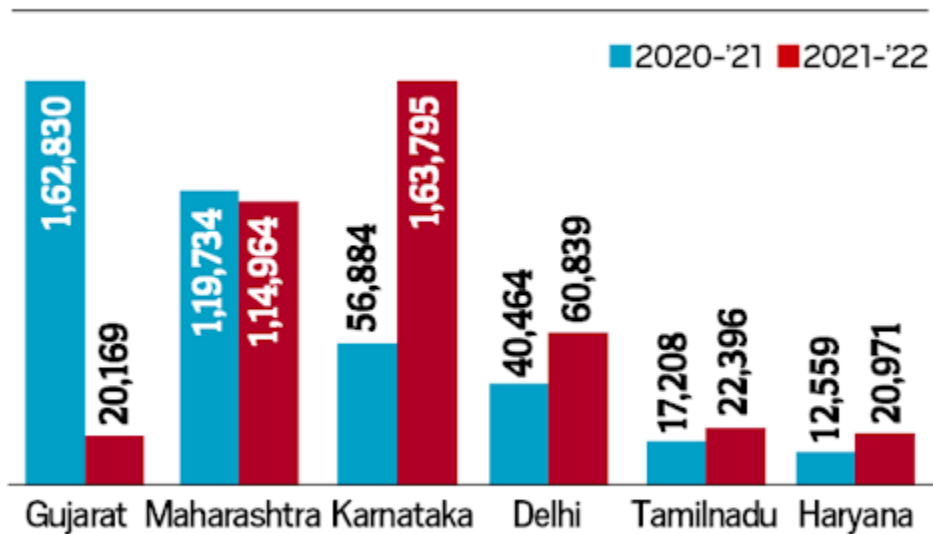


Image Credit: Indian Express

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**Sustaining FDI Flows:**

- India received FDI from 101 countries to total 57 sectors across the board.
- Considering the fact that India is a developing country, increased inflow of FDI is an endorsement of India's status as a preferred investment destination amongst global investors.
- Amid ongoing Russia-Ukraine war and Pandemic, the growth in FDI shows India's potential and trust kept by the investors in India's business environment.

**Factors that facilitated higher FDI Inflows:**

- Ease of Doing business promoted via various policies such as 'Make in India', Labor law reforms, Opening up of various sectors to private players, liberalized FDI laws.
- These policies reduced the regulatory framework and prompted overseas investors.
- Frequent policy updates with a vision of correcting the policies goes a long way in attracting FDI.
- Political stability of the country.
- Many companies shifted their base out of China which is considered the 'World's Factory' during Covid19 and India has been a beneficiary of firms looking for alternative locations to site their manufacturing operations .

**Significance of this growth in FDI inflow:**

- India has strong [Foreign Exchange reserves](#) of around \$600 billion despite the fall in the dollar value of assets held as reserves by the RBI mainly due to increase in FDI inflows.
- FDI also brings in many collateral benefits such as Upgraded skills and latest technologies into the country.
- FDI Inflows lead to an increase in output by increasing production activities and hence increases demand for labor.
- FDI strengthens the balance sheet as it raises the assets of the companies.
- FDI inflow results in an increase in tax revenues which in turn raises government spending.
- The FDIs increase exports and help stabilize the exchange rates in the country.
- Growth in FDI is one of the reasons behind the startup revolution in India and emergence of unicorns.

**Way Forward:**

- India should focus on attracting more FDI in the manufacturing sector as increase in the level of investment leads to the multiplier impact on increasing the levels of employment and income.
- Karnataka and Maharashtra combined gets around 56% of the total FDI. The Union and State governments should be proactive in attracting FDI in a balanced manner throughout the country.
- FDI in agriculture and allied sectors like Food processing should be promoted as more than 60% of the population depends on it.

**Conclusion:**

Policy reforms by the Government in last few years have borne fruit as is evident from the ever-increasing volumes of FDI inflow being received into the country. The roadmap ahead for FDIs suggests that India is expected to attract FDI of US\$ 120-160 billion per year by 2025 as 80% of investors have shown interest to invest in India in the next 2-3 years, This shows that India holds a secure relationship with foreign direct investments.