



## Foreign Direct Investment Inflows

**For Prelims:** [Foreign Direct Investment \(FDI\)](#), [Department for Promotion of Industry and Internal Trade \(DPIIT\)](#), [World Investment Report](#), [Intellectual property rights](#).

**For Mains:** Trends and Patterns of FDI Inflows in India, Challenges Related to FDI inflows in India

### Why in News?

[Foreign Direct Investment \(FDI\) inflows](#) into India have experienced a notable downturn in the **fiscal year ending March 2023**.

- FDI inflows on a gross basis stood at **USD 71 billion in FY23**, reflecting a decline of 16% compared to the previous fiscal year, **marking the first decrease in FDI inflows in the country in the past decade**.

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

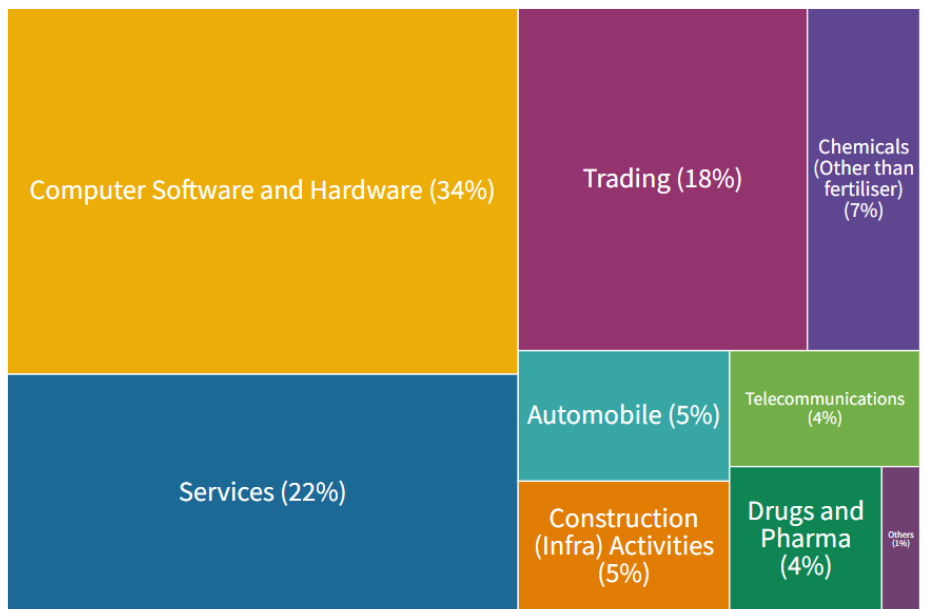
- **Foreign direct investment (FDI)** is a type of **cross-border investment in which an investor from one country establishes a lasting interest in an enterprise in another country**.
- FDI can take various forms, such as **acquiring shares, establishing a subsidiary or a joint venture, or providing loans or technology transfers**.
  - FDI is considered to be a key driver of **economic growth**, as it can bring in **capital, technology, skills, market access and employment opportunities to the host country**.

### What are the Trends and Patterns of FDI Inflows in India?

- **About:**
  - India has been one of the **most attractive destinations for FDI in recent years**, owing to its large and growing domestic market, favourable demographics, political stability, liberalised policy framework and improved ease of doing business.
  - According to the [Department for Promotion of Industry and Internal Trade \(DPIIT\)](#), India's cumulative FDI inflow stood at **USD 871.01 billion between April 2000-June 2022**.
  - According to the [World Investment Report 2022](#), India has ranked **7<sup>th</sup> among the top 20 host economies for 2021**.
    - India received the highest-ever FDI inflows of **USD 84.8 billion** including **USD 7.1 billion FDI equity inflows in the [services sector](#) in FY22**.

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## Sector-wise FDI Equity Inflows during April-September 2022



### ▪ Country-wise FDI Equity Inflow FY-2021-22:

- Singapore (27.01%), USA (17.94%), Mauritius (15.98%), Netherland (7.86%) and Switzerland (7.31%) emerge as top 5 countries for FDI equity inflows.

## What are the Challenges Related to FDI inflows in India?

- **Taxation and Regulatory Compliance:** India's tax regime has undergone several reforms in recent years, but **complexities and uncertainties still exist**.
  - **Frequent changes in tax laws, multiple layers of taxation**, and disputes over tax assessments create challenges for foreign investors in terms of compliance and tax planning.
- **Competition from Other Emerging Markets:** India faces competition from other emerging markets, such as **China, Vietnam, and Indonesia**, in attracting FDI.
  - These countries offer **competitive advantages**, including lower costs of production, better infrastructure, and more investor-friendly policies.
- **Infrastructure Deficit:** Despite ongoing efforts to improve infrastructure, India still faces significant gaps in areas such as **transportation, logistics, power, and telecommunications**.
  - Insufficient infrastructure hampers the **ease of doing business** and raises operational costs for foreign investors.

## What Measures can be Taken to Boost FDI Inflows in India?

- **Simplify and Streamline Regulatory Processes:** India can further **simplify and streamline its regulatory processes**, including licensing, permits, and approvals. Implementing a **single-window clearance system** or a digital platform for regulatory compliance can **reduce bureaucracy and enhance the ease of doing business**.
- **Improve Infrastructure Development:** Focus on improving infrastructure across sectors such as **transportation, logistics, power, and digital connectivity**.
  - Developing **world-class infrastructure facilities and industrial clusters** will attract foreign investors looking for efficient and well-connected business environments.
- **Enhance Investor Protection Mechanisms:** Strengthening investor protection mechanisms, including **robust intellectual property rights (IPR) enforcement, contract enforcement**, and dispute resolution mechanisms, will instil confidence in foreign investors.
  - This can be achieved through **judicial reforms**, specialised commercial courts, and alternative dispute resolution methods.
- **Promote Sector-Specific Investment Policies:** Formulate sector-specific investment policies and incentives to attract FDI in key sectors such as **manufacturing, renewable energy**,

healthcare, technology, and [e-commerce](#).

- **Tailoring policies to address the specific needs and requirements** of each sector can encourage foreign investors to invest in those areas.

## UPSC Civil Services Examination, Previous Year Questions (PYQs)

**Q. With reference to Foreign Direct Investment in India, which one of the following is considered its major characteristic? (2020)**

- (a) It is the investment through capital instruments essentially in a listed company.
- (b) It is a largely non-debt creating capital flow.
- (c) It is the investment which involves debt-servicing.
- (d) It is the investment made by foreign institutional investors in Government securities.

**Ans: (b)**

**Q. Consider the following: (2021)**

1. Foreign currency convertible bonds
2. Foreign institutional investment with certain conditions
3. Global depository receipts
4. Non-resident external deposits

**Which of the above can be included in Foreign Direct Investments?**

- (a) 1, 2 and 3
- (b) 3 only
- (c) 2 and 4
- (d) 1 and 4

**Ans: (a)**

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**Ans: (a)**

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

