



# FDI Inflows

## Why in News

Foreign Direct Investment (FDI) inflows **grew 62% during the first four months** (April-July period) of current FY 2021-22 over corresponding period last year (2020).

- India attracted a total **FDI inflow of USD 27.37 billion during** the four months.
- In the **FY 2020-21**, India saw growth of 10% (to \$82 bn) in FDI.

## Key Points

- **FDI Equity:**
  - FDI equity inflow **grew by 112%** in the **April-July period** of FY 2021-22 (USD 20.42 billion) compared to the year ago period.
- **Top Sectors:**
  - The **Automobile Industry has emerged as the top sector** with 23% share of the total FDI Equity inflow **followed by Computer Software & Hardware (18%) and Services Sector (10%)** respectively.
- **Top FDI Destinations:**
  - **Karnataka is the top recipient** state for the period with 45% share of the total FDI Equity inflows followed by **Maharashtra (23%) and Delhi (12%)**.

## Foreign Direct Investment

- **Definition:**
  - FDI is the process whereby residents of one country (the home country) **acquire ownership of assets for the purpose of controlling** the production, distribution and other activities of a firm in another country (the host country).
    - It is different from **Foreign Portfolio Investment** where the foreign entity merely buys stocks and bonds of a company. FPI does not provide the investor with control over the business.
- **Three Components:**
  - **Equity capital:** It is the foreign direct **investor's purchase of shares** of an enterprise in a country other than its own.
  - **Reinvested earnings:** It comprises the **direct investors' share of earnings not distributed as dividends** by affiliates, or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested.
  - **Intra-company loans:** These **refer to short- or long-term borrowing and lending of funds** between direct investors (or enterprises) and affiliate enterprises.
- **Routes through which India gets FDI:**

- **Automatic Route:** In this, the foreign entity does **not require the prior approval of the government or the [RBI \(Reserve Bank of India\)](#).**
- **Government Route:** In this, the foreign entity **has to take the approval** of the government.
  - The **[Foreign Investment Facilitation Portal \(FIFP\)](#)** facilitates the single window clearance of applications which are through approval route. It is administered by the **[Department for Promotion of Industry and Internal Trade \(DPIIT\)](#)**, Ministry of Commerce and Industry.

▪ **Government Measures to Promote FDI:**

- Factors such as favourable demographics, impressive mobile and internet penetration, massive consumption and technology uptake, played an important role in attracting the investments.
- Launch of **Schemes attracting investments**, such as, **[National technical Textile Mission](#)**, **[Production Linked Incentive Scheme](#)**, **[Pradhan Mantri Kisan SAMPADA Yojana](#)**, etc.
  - The government has elaborated upon the initiatives under the **[Atmanirbhar Bharat](#)** to encourage investments in different sectors.
- As a part of its **[Make in India initiative](#)** to promote domestic manufacturing, India deregulated FDI rules for several sectors over the last few years.

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

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