



India's Rise as a Global Investment Hub

This editorial is based on "[The world wants to Make in India](#)" which was published in Hindustan Times on 26/09/2024. The article highlights India's transformation into a global investment hub, driven by the Make in India initiative and supported by complementary policies like Startup India and PLI schemes. It underscores India's appeal through its "four Ds" and success in sectors like toy manufacturing, leading to increased exports, job creation, and foreign investment.

For Prelims: [Make in India initiative](#), [Startup India](#), [Production Linked Incentive](#), [Atmanirbhar Bharat Abhiyan](#), [National Infrastructure Pipeline](#), [India Industrial Land Bank](#), [Quad](#), [Supply Chain Resilience Initiative](#), [Startup India initiative](#), [Digital infrastructure](#), [Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act of 2013](#).

For Mains: Challenges Hindering India's Attractiveness as an Investment Destination, Steps that India Can Take to Enhance Its Appeal as an Investment Destination.

India's transformation from an economically constrained nation to a global investment hotspot can be significantly attributed to the [Make in India initiative](#). This flagship program has reinvigorated **job creation, stimulated economic growth, and empowered businesses**, particularly MSMEs, to produce high-quality goods. It has helped transform several sectors from importers of substandard products to exporters of premium goods, with the toy manufacturing industry serving as a prime example, witnessing a **239% increase in exports while halving imports**.

The success of Make in India is complemented by other effective policies and initiatives such as [Startup India](#), [Production Linked Incentive \(PLI\) schemes](#), and significant infrastructure investments. These efforts have attracted substantial foreign investments, created millions of jobs, and positioned India as a key partner in high-tech and emerging technologies. The country's appeal to global investors is further enhanced by its "**four Ds**": **decisive leadership, demand from a large population, demographic dividend, and vibrant democracy**. As a result, India has become a sought-after destination for manufacturing and innovation, with a promising future ahead.

How India is Becoming an Increasingly Attractive Investment Destination?

- **Robust Economic Growth:** India has emerged as one of the world's fastest-growing economies, with total FDI inflows reaching **USD 990.97 billion from April 2000 to March 2024**.
 - IMF expects **India's GDP to grow by 6.7% in FY24**, making it one of the fastest-growing large economies.
 - The [Atmanirbhar Bharat Abhiyan](#) introduced a **USD 270 billion** economic stimulus package, equivalent to **10% of the nation's GDP**.
- **Demographic Dividend:** India is home to the world's largest youth population, with a projected increase from 121.1 crore in 2011 to 152.2 crore by 2036, making it a powerhouse of demographic

advantage. With a vibrant workforce and a vast pool of young talent, **India will remain one of the youngest countries globally until 2030.**

- This young population is **increasingly tech-savvy**, with **internet users in India projected to reach 900 million by 2025**, creating opportunities in e-commerce, digital services, and tech-enabled sectors.

▪ **Infrastructure Development:** India's infrastructure development is advancing rapidly, with the [National Infrastructure Pipeline \(NIP\)](#) being a **key driver for growth.**

- This initiative aims to create world-class infrastructure and boost India's economy to a **USD 5 trillion target by FY 2025.**
- Over 9,700 projects worth USD 3,093.51 billion have been identified, spanning critical sectors like **Energy (24%), Roads (18%), Urban (17%), and Railways (12%).**
 - Additionally, a significant equity infusion of INR 6,000 crore into the **National Investment and Infrastructure Fund (NIIIF)** further strengthens India's capacity to attract global investments.

▪ **Improving Ease of Doing Business:** The Indian government has implemented numerous reforms to enhance the business environment.

- India's rank in the **World Bank's Ease of Doing Business Index** improved from 142 in 2014 to 63 in 2019.
- Recent initiatives include the elimination of **over 25,000 compliance requirements, digitization of processes**, and the introduction of the **Goods and Services Tax (GST).**
- The [India Industrial Land Bank \(IILB\)](#), a GIS-based portal, provides extensive information on industrial parks, enhancing ease of doing business.

▪ **Competitive Labor Costs:** India's large and growing workforce offers a significant cost advantage to investors.

- India has one of the world's largest labor forces, ensuring a steady supply of workers across various skill levels. Indian labor costs remain competitive compared to many other countries, particularly in manufacturing and services sectors.
 - The average manufacturing labor cost in India **is significantly lower than in China and many Southeast Asian countries.**
 - Recent **labor reforms have aimed to provide more flexibility to businesses while protecting workers' rights**, potentially making India more attractive for labor-intensive industries.

▪ **Large and Growing Consumer Base:** India's massive and expanding consumer market is a major draw for investors:

- India's population is equivalent to **17.78% of the total world population**, offering an enormous potential customer base.
- The strength of the **middle class** is expected to rise from 432 million people in 2020-21 to 715 million (**47%) in 2030-31**, driving increased consumer spending across various sectors.

▪ **Strategic Geopolitical Position:** India's rising geopolitical importance and its **position as a counterbalance to China** in the Indo-Pacific region have increased its attractiveness to global investors.

- India's participation in strategic groupings like the [Quad \(with the US, Japan, and Australia\)](#) and its leadership in initiatives like the **International Solar Alliance** showcase its growing global influence.
- Recent developments, such as the [Supply Chain Resilience Initiative](#), have further enhanced its appeal to international investors looking for alternatives to China.

▪ **Booming Start-up Ecosystem:** India's start-up ecosystem has seen explosive growth, making it the third-largest globally.

- As of **3rd October 2023**, India is home to **111 unicorns** with a total valuation of \$ 349.67 billion.
- The government's [Startup India initiative](#), launched in 2016, has played a crucial role in this growth by providing funding, tax benefits, and regulatory support.
 - This thriving ecosystem has attracted significant foreign investment, with Indian start-ups raising USD 24 billion in equity funding in 2022 despite global economic headwinds.

▪ **Renewable Energy Push:** India's commitment to renewable energy has created substantial investment opportunities.

- The country aims to achieve **500 GW of renewable energy capacity by 2030**, up from

about 170 GW in early 2023.

- This ambitious target has **spurred investments in solar, wind, and [green hydrogen projects](#)**.
 - Such initiatives not only attract foreign investment but also position India as a leader in the global transition to clean energy.
- **Digital Infrastructure and Fintech Revolution:** India's [digital infrastructure](#), particularly the **India Stack** has revolutionized financial inclusion and created new investment opportunities.
 - [Unified Payments Interface \(UPI\)](#) processed a staggering **3729.1 transactions per second** with 117.6 billion transactions being processed on the platform in 2023.
 - This digital backbone has fueled the growth of fintech, with India's fintech market expected to reach **USD 150 billion by 2025**.
 - **Global tech giants and venture capitalists** are increasingly investing in Indian fintech startups, recognizing the potential of India's large, underserved market and innovative digital solutions.

What Challenges Hinder India's Attractiveness as an Investment Destination?

- **Infrastructure Gaps:** Despite significant improvements, India's infrastructure still lags behind global standards, impacting efficiency and increasing costs for businesses.
 - In 2023, India ranked **38 out of the 139 nations in the [World Bank's Logistics Performance Index \(LPI\)](#)**, highlighting room for improvement.
 - The infrastructure deficit is particularly acute in areas like **power distribution, water supply, and last-mile connectivity**, affecting manufacturing competitiveness.
- **Regulatory Complexity and Policy Uncertainty:** India's regulatory environment, while improving, remains complex and sometimes unpredictable, deterring potential investors.
 - Recent examples include **retrospective tax disputes with companies like Vodafone and Cairn Energy**, which were only resolved in 2021 after years of litigation.
 - The frequent changes in [e-commerce rules](#) and [data localization requirements](#) have also created uncertainty for tech companies.
- **Labor Market Rigidities:** India's new **4 labor codes** which were introduced in **2019 & 2020** are yet to be implemented. The workers in the unorganized sector constitute more than **90% of the total employment** in the country.
 - The skills mismatch in the labor market is another concern. A employability survey of 2019 reveals that **80% of Indian engineers are not fit for any job in the knowledge economy** and only 2.5% of them possess tech skills in [Artificial Intelligence \(AI\)](#) that industry requires.
- **Banking Sector Challenges:** The Indian banking sector, particularly public sector banks, continues to grapple with [high non-performing assets \(NPAs\)](#) and **capital adequacy issues**, constraining credit flow to businesses.
 - According to RBI's Financial Stability Report of June 2024, non-performing assets (NPAs) of [scheduled commercial banks](#) (though declining) are still at **2.8% (Gross NPA)**.
 - The recent **near collapse of Yes Bank in 2020** raised questions about the stability of the financial system.
- **Land Acquisition Challenges:** Land acquisition remains a significant hurdle for large-scale industrial and infrastructure projects in India.
 - [The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act of 2013](#), while protecting landowners' rights, has made the process more time-consuming and expensive.
 - For example, the **Mumbai-Ahmedabad High Speed Rail project has faced significant delays** due to land acquisition issues.
 - The **lack of digitized land records** in many states further complicates the process, leading to disputes and project delays.
- **Intellectual Property Rights (IPR) Concerns:** While India has made progress in strengthening its [IPR regime](#), concerns persist among international investors, particularly in sectors like pharmaceuticals and technology.
 - India ranked **42nd out of 55 countries** in the **U.S. Chamber of Commerce's 2023 International IP Index**.
 - The country's patent laws, especially **Section 3(d) of the Patents Act**, which sets a high bar for pharmaceutical patents, have been a point of contention.

- The prevalence of **counterfeit goods**, with a 2022 FICCI report estimating the size of the counterfeit market in India at **₹2.6 trillion** (in 5 Key Indian industries), further underscores the challenges in IPR protection.
- **Digital Infrastructure and Cybersecurity:** Despite rapid digitalization, India still faces challenges in digital infrastructure and cybersecurity, which are critical for attracting investments in the tech sector.
 - [Indian Computer Emergency Response Team \(Cert-In\)](#) handled **1,391,457 cyber security incidents in 2022**, raising concerns about data protection.

What Steps Can India Take to Enhance Its Appeal as an Investment Destination?

- **Accelerate Infrastructure Development:** India should prioritize closing its infrastructure gap by accelerating project implementation and increasing investment.
 - Emphasis should be on **improving logistics efficiency; India's logistics costs (14% of GDP) are significantly higher than in developed countries (8-10%)**. Initiatives like the PM Gati Shakti National Master Plan should be fast-tracked.
 - Successful implementation could potentially **save billions of dollars** annually in logistics costs and boost export competitiveness.
- **Streamline Regulatory Processes:** India needs to further simplify its regulatory environment to reduce compliance burdens and improve ease of doing business.
 - The government should build on its success in eliminating over 25,000 compliance requirements and **decriminalizing minor offenses**.
 - Implementing a **single-window clearance system** for all central and state-level approvals could significantly reduce project delays.
 - For instance, the success of **Gujarat's single-window system** could be replicated nationally.
 - **Digitizing and integrating** various regulatory processes could potentially save businesses billions in compliance costs annually.
- **Labor Law Reforms and Skill Development:** Implementing the four new labor codes swiftly and effectively is crucial to increase labor market flexibility.
 - Simultaneously, India should **ramp up its skill development initiatives** to address the employability gap.
 - The government should aim to increase the number of people skilled under the [Pradhan Mantri Kaushal Vikas Yojana](#).
 - Collaborations with industry, like the **recent partnership between Google and NASSCOM to train 100,000 developers in cloud technologies**, should be scaled up.
- **Strengthen the Banking Sector:** India should continue its efforts to clean up bank balance sheets and recapitalize public sector banks.
 - Implementing the recommendations of the **RBI's Internal Working Group on ownership guidelines** for Indian private sector banks could attract more investment in the banking sector.
- **Land Reforms and Digitization:** Implementing comprehensive land reforms, including digitization of land records and streamlining the land acquisition process, is crucial.
 - The government should aim to **complete the digitization of land records** under the [Digital India Land Records Modernization Programme in all states](#).
 - Successful implementation could potentially reduce land-related disputes by 50% and cut project implementation times significantly.
- **Strengthen Intellectual Property Rights Protection:** India should focus on strengthening its IPR regime to boost investor confidence, **particularly in high-tech and R&D-intensive sectors**.
 - In order to reduce the time taken in the application process of patents, prescribed time limits for the first step may be reduced to **14-15 months (from 18 months currently)**, bringing it in line with the US and China
 - Increasing the number of **patent examiners and modernizing the IP offices could help achieve this goal**.
- **Boost Digital Infrastructure and Cybersecurity:** India should accelerate its digital infrastructure development, aiming to provide high-speed internet access to all villages **under the BharatNet project**.
 - The government should focus on increasing the average fixed broadband speed.

- Implementing the **National Cyber Security Strategy** and establishing a robust system could potentially reduce cybersecurity incidents by 50% and position India as a secure destination for data-driven investments.
- **Promote Sustainable Development:** India should accelerate its transition to renewable energy and sustainable practices to **attract ESG-focused investments**.
 - Also, promoting **circular economy practices and water conservation** could address resource scarcity issues.
 - These measures could potentially attract over **USD 100 billion** in green investments by 2030 and position India as a leader in sustainable manufacturing.
- **Enhance Education and Skill Development:** India should focus on aligning its education system with industry needs, particularly in **emerging technologies**.
 - Implementing the [National Education Policy 2020](#) effectively, with a focus on digital skills and practical training, is crucial.
 - Scaling up successful models like the **Indian Institutes of Skills**, which aim to provide industry-relevant training, could help bridge the skill gap.

Conclusion

India's journey toward becoming a global investment hub is on a **promising path**, driven by strategic reforms, infrastructure development, and a young, tech-savvy workforce. To fully realize its potential, India must address key challenges in **infrastructure, regulatory complexity, and skill development**, while continuing to strengthen its digital and sustainable growth initiatives. With targeted measures, India can cement its position as a **top destination for global investments**.

Drishti Mains Question:

What are the key challenges hindering India's attractiveness as an investment destination, and what strategic measures can be adopted to enhance its potential for foreign and domestic investments? Discuss.

UPSC Civil Services Examination, Previous Year Questions (PYQ)

Prelims

Q. Which one of the following groups of items is included in India's foreign-exchange reserves? (2013)

- (a) Foreign-currency assets, Special Drawing Rights (SDRs) and loans from foreign countries
- (b) Foreign-currency assets, gold holdings of the RBI and SDRs
- (c) Foreign-currency assets, loans from the World Bank and SDRs
- (d) Foreign-currency assets, gold holdings of the RBI and loans from the World Bank.

Ans: (b)

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 an investment which involves debt-servicing.
- (d) It is the investment made by foreign institutional investors in the Government securities.

Ans: (b)

Mains:

Q. Justify the need for FDI for the development of the Indian economy. Why is there a gap between MoUs signed and actual FDIs? Suggest remedial steps to be taken for increasing actual FDIs in India. **(2016)**

Q. Foreign Direct Investment in the defence sector is now set to be liberalised. What influence is this expected to have on Indian defence and economy in the short and long run? **(2014)**

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