



India Emerges as Most Attractive Emerging Market for Investment

For Prelims: [foreign direct investment](#), [emerging market](#), [ease of doing business](#).

For Mains: Growth of India as Emerging Market for Investment, Challenges and Risks associated with investing in emerging markets

Source: [TH](#)

Why in News?

According to **Invesco Global Sovereign Asset Management Study** by Invesco (an independent global investment management firm), India **has surpassed China** to become the **most attractive [emerging market](#) for investment in 2023**.

- The report emphasizes **India's attractiveness to sovereign wealth funds** due to its strong demographics, political stability, and proactive regulation.

What are the Key Highlights of the Report?

- India is ranked as the most attractive emerging market for investing in emerging market debt.
- India offers **attractive yields, a favorable currency outlook, and strong macroeconomic fundamentals** for debt investors.
- India is ranked among the **top destinations for increasing exposure in both public and private markets**.
- **India and South Korea are the most preferred markets** for increasing exposure in **public equities**.
- **India and Brazil** are the most favored markets for increasing exposure in **private equity**.
- India, along with Mexico and Brazil, is benefiting from increased **[foreign direct investment](#)**, supporting currencies, and domestic assets while funding **[current account deficits](#)**.
- The report acknowledged the **challenges and risks of investing in emerging markets** and advised sovereign investors to carefully assess and manage them.

What Makes India Attractive to Investors?

- **Business and Political Stability:** India is considered a **stable destination for sovereign investors** due to **improved business and political stability**.
- **Ease of Doing Business:** India has implemented reforms to **enhance the [ease of doing business](#)**, including **lowering [corporate tax rates](#)** and **liberalizing [foreign direct investment norms](#)**.
- **Production-Linked Incentive Schemes:** India has introduced **[production-linked incentive schemes](#) to attract foreign investment** in various sectors.
- **Fast-growing Demographics:** India's **large and young consumer market**, skilled labor force, and potential for **innovation and entrepreneurship** make it an attractive destination for

investors.

- **Proactive Regulation:** India has taken steps to address challenges faced by sovereign investors, such as **taxation, currency volatility, and legal disputes.**
- **Friendly Investment Environment:** India is known for its **openness and willingness to engage with sovereign investors**, offering various opportunities for collaboration and investment.

What are the Challenges and Risks of Investing in India?

- **Inflation:** Rising inflationary pressures pose a **short-term risk**, leading to tighter **monetary policy, higher interest rates, lower asset prices, and currency depreciation** in emerging markets like India.
- **Geopolitical Risk:** Increasing **geopolitical tensions** can result in trade wars, sanctions, conflicts, or cyberattacks, affecting trade flows, supply chains, energy security, and market sentiment.
- **Supply Chain Disruptions:** The **Covid-19 pandemic** has highlighted the vulnerabilities of global supply chains, impacting the **availability and cost of raw materials**, intermediate goods, and final products, which can affect **economic activity and inflation.**
- **Climate Change:** **Climate change** presents **physical risks to infrastructure, agriculture, health, and biodiversity**, as well as transition risks to energy sources, industries, regulations, and policies. These risks can have implications for investments in India.

Way Forward

- Strengthen **diplomatic relations** and engage in **bilateral and multilateral partnerships** to promote trade, investment, and technology transfer, further enhancing India's global attractiveness as an investment destination.
- Continue **implementing reforms to improve the ease of doing business**, reducing bureaucratic hurdles, simplifying procedures, and enhancing transparency to facilitate foreign investments.
- Embrace **sustainable practices and invest in renewable energy, clean technologies, and climate resilience measures** to mitigate environmental risks and attract socially responsible sovereign investors.
- Invest in **skill development programs** and education to nurture a highly skilled workforce and foster innovation, thereby enhancing India's competitive advantage and attracting long-term investments.
- Continue proactive regulation to address challenges faced by sovereign investors, including tax reforms, currency volatility management, and efficient dispute resolution mechanisms.

UPSC Civil Services, Previous Year Question (PYQ)

Q1. Consider the following actions which the Government can take: (2011)

1. Devaluing the domestic currency.
2. Reduction in the export subsidy.
3. Adopting suitable policies which attract greater FDI and more funds from FII's.

Which of the above action/actions can help in reducing the current account deficit?

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

Ans: (d)

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