



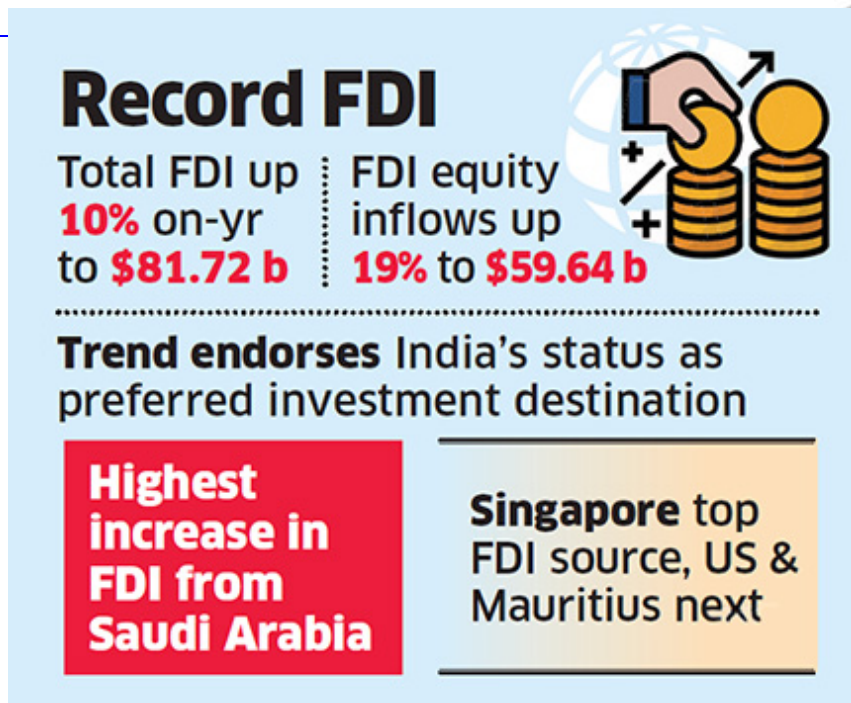
## FDI Inflow Touches \$82 Bn in FY21

### Why in News

In the **Financial Year 2020-21**, India sees **growth of 10% (to \$82 bn)** in **Foreign Direct Investment (FDI)**. **FDI equity investments rise 19%** to \$60 billion.

- In **2019-20**, India had **received \$74.39** billion in FDI, with almost **\$50 billion** coming in the form of **equity investments**.

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### Key Points

- **Top Investors:**
  - **Singapore** emerged as the **top investor** with almost a third of all investments, **followed by the US** which accounted for **23% of FDI** and **Mauritius from where 9%** of the foreign capital flows originated.
- **Sharpest Growth from Saudi Arabia:**
  - The sharpest growth among the **top 10 FDI-origin countries** was recorded from **Saudi Arabia**.
  - Investments jumped from \$90 million in **2019-20** to **\$2.8 billion in 2020-21**.
- **FDI Equity:**
  - FDI equity flows **from the US more than doubled** during the year compared with

2019-20, while **investments from the UK surged 44%**.

▪ **Top FDI Destinations;**

- **Gujarat** was the **top** FDI destination in 2020-21, accounting for **37% of** the foreign equity inflows, followed by **Maharashtra (2<sup>nd</sup>)** which got **27% of** the equity inflows.
- **Karnataka (3<sup>rd</sup>)** accounted for another 13% of the equity investments.

▪ **Top Sectors:**

- **Computer software and hardware** has emerged as the top sector during 2020-21 with about **44% share** of the total FDI equity inflow.
- These are followed by **construction (infrastructure) activities (13%)** and **services sector (8%)**, respectively.

## 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** is the foreign direct investor's purchase of shares of an enterprise in a country other than its own.
- **Reinvested earnings** comprise 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** or intra-company debt transactions 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.
- **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:**

- In **2020**, factors such as a swift response in combating the **Covid crisis**, 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: TH**

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