Foreign Investments Flows are Slowing Down

What is the issue?

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- Reports have confirmed that all forms of Foreign Investment in India (including the priced FDI) are slowing down.
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- This is despite the positivity in the global economy and the government's strong rhetoric in this domain.
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What is the state of FDI flows?

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- **What -** Foreign direct investment (FDI) is prized over other forms of capital flows because it directly adds to the productive base of the country.
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- As a long-term and patient monetary stream, it is contrasted against the "hot money" that comes as portfolio investments, which is more temporary.
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- **Data -** According to recent data from the "Department of Industrial Policy and Promotion" (DIPP), growth rate of FDI hit a 5-year low in 2017-18.
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- It grew by only 3%, to $44.85 billion this year, which is despite the big-ticket purchase of Essar by Rosneft, for $13 billion.
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- This trend was also confirmed in a report from the "United Nations Commission on Trade and Development" (UNCTAD).
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- According to UNCTAD, FDI to India actually fell in the calendar year 2017, from $44 billion the previous year to $40 billion.
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- But on the contrast, UNCTAD notes that outward FDI from India more

than doubled during the same period.
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How does this trend contrast against Modi government’s rhetoric?

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- The current government has been loudly trumpeting its efforts to make India more investment-friendly and prides its pro-business credentials.
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- But statistics suggest that not just foreigners, but even Indian investors are less likely to invest in India presently, as indicated by outward FDI flows.
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- More specifically, while FDI flows have declined overall internationally, the developing world at large has largely been able to retain its investment flows.
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- As some developing countries have even seen considerable spikes in FDI flows, the government can’t state external factors for India’s FDI trends.
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- Interestingly, India’s standing in World Bank’s “Ease of Doing Business” ranking has been steadily raising, but it isn’t being reflected on the ground.
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- This may be because the government is focusing on merely tailoring its policies to improve rankings without actually improving business friendliness.
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- The government seems to have given up too soon on “deep structural reforms” that it enthusiastically embraced at the start of its tenure.
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What is the way ahead?

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- There is no scope for any Indian government to abandon reforms at this point in India’s development due to the complex market scenario at play.
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- **Structural -** The percentage of permissible FDI has been raised in

various sectors, but the processes for investors to enter India remains cumbersome.
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- The abolition of the Foreign Investment Promotion Board (FIPB) was intended to simplify processes by removing a bottleneck.
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- But the direct ministerial approval regime that is now operational doesn't seem to be having the desired results.
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- **Changing Wind -** The impressive 6% plus GDP growth in the previous decade had made India one of the most sought after investment destination.
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- But the past record seems have made our policy makers arrogant regarding the potency of India's economy to attract investments.
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- Considering the current situation, India would do good to give up arrogance and be more respectful of investor concerns (like dispute resolution).
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- It is important to note that, a sustained increase in foreign investments is vital for generating jobs for the millions entering the workforce every year.
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Source: Business Standard

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