

India's FDI potential

What is the issue?

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- Gross FDI flows into India are expected to triple in the coming decade.
- A glimpse at the factors which make India a favourable FDI destination thus becomes vital.

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What factors give India this potential?

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- **Domestic Factors** - Earlier FDI destinations in open economies in Asia showed a vertical trend because of their presence in the overall supply chain.
- However, the potential in India at present attracts more horizontal FDI i.e. FDI largely attracted by the growing domestic market rather than for just exports. The factors are -

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1. Presence of a large market.
2. Favourable demographics.
3. Rising per capita income.
4. Rising number of middle-income consumers.
5. Low penetration of consumer goods and services suggesting further potential.

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- **Reforms** by the government also made India investment friendly. These include -

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1. GST
2. FDI liberalisation.
3. public spending on transport infrastructure.
4. bankruptcy laws.
5. Commitment to fiscal consolidation.
6. RBI's focus on lowering inflation
7. Crackdown on corruption.
8. The scrapping of obsolete laws.
9. Online clearances, etc.

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- **Global factors** -

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1. Sparse growth opportunities globally.
2. Rising labour costs in china.
3. Lower manufacturing and non-manufacturing wages in india than they are in china.
4. An ageing population in north-east asia.
5. Expensive global supply chains in terms of manufacturing, in major countries in Asia.

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- A comprehensive overhaul of the transportation sector including inland waterways, ports and shipping investments lowered the costs and enabled higher efficiency.

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- The growing industry of renewable energy also attracts the next largest FDI commitment.

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Source: Business Standard

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