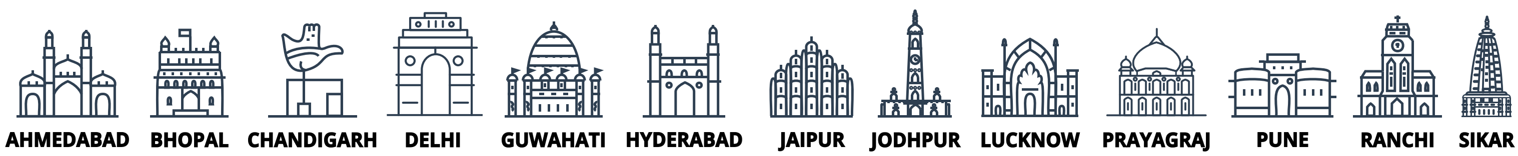
VISIONIAS
INSPIRING INNOVATION

Weekly Focus #114

INVESTMENT ECOSYSTEM in India

Investment is considered one of the most important factors determining growth and development of a country. With a population of around 1.4 billion, and GDP of $3.2 trillion, India has emerged as one of the fastest-growing economies in the world, offering a thriving environment for investments, both domestic and foreign. According to IMF's projections, India will emerge as the world's third largest economy by 2027 as its GDP is poised to cross US$5 trillion dollars by surpassing Japan and Germany.

IN THIS DOCUMENT



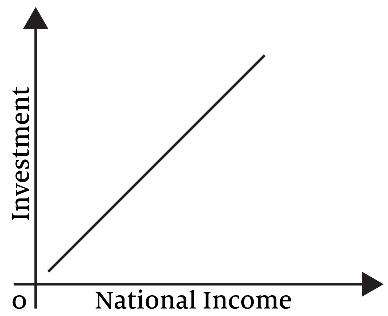
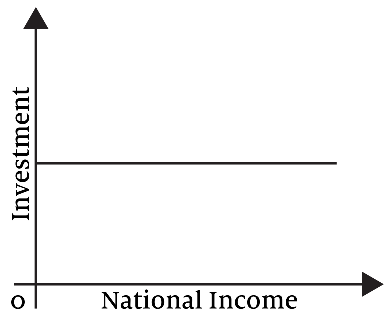
1. What do you understand by investment in an economy?

Investment refers to the **expenditure incurred to create new capital assets.** These capital assets include buildings, machinery, raw material, equipment, etc. **Expenditure on these assets** results in an **increase in economy's productive capacity.** Investment expenditure is classified under **Induced Investment and Autonomous Investment (refer box 1.1).**

Investment plays six macroeconomic roles i.e.

1. It **contributes to current demand of capital goods,** thus it increases domestic expenditure.
2. It **enlarges the production base** (installed capital), increasing production capacity.
3. **Modernizes production processes,** improving cost effectiveness.
4. It **reduces labour needs** per unit of output, thus **potentially producing higher productivity.**
5. **Allows for the production of new and improved products,** increasing value added in production.
6. **Incorporates international world-class innovations and quality standards,** bridging the gap with more advanced countries and helping exports and an active participation to international trade.

Box 1.1 Difference between Induced Investment and Autonomous Investment

Induced Investment	Basis	Autonomous Investment
It refers to the investment which is made with the motive of earning profit.	Motive	It refers to the investment, which is made irrespective of level of income.
It is generally done in private sector.	Sector	It is generally done in government sector.
It is income elastic. If national income goes up, induced investment also goes up.	Income Elasticity	It is income inelastic, i.e., it is not affected by change in income level. The volume of autonomous investment is the same at all levels of income.
Its curve is upward sloping rises up to Right. 	Curve	Its curve is a straight line parallel to horizontal axis. 

1.1 What are different forms of Investment?

Investments can take various forms, and they are classified based on their nature, structure, and underlying assets. These include **Fixed Rate, Market Linked and Alternative Investment Instruments.**

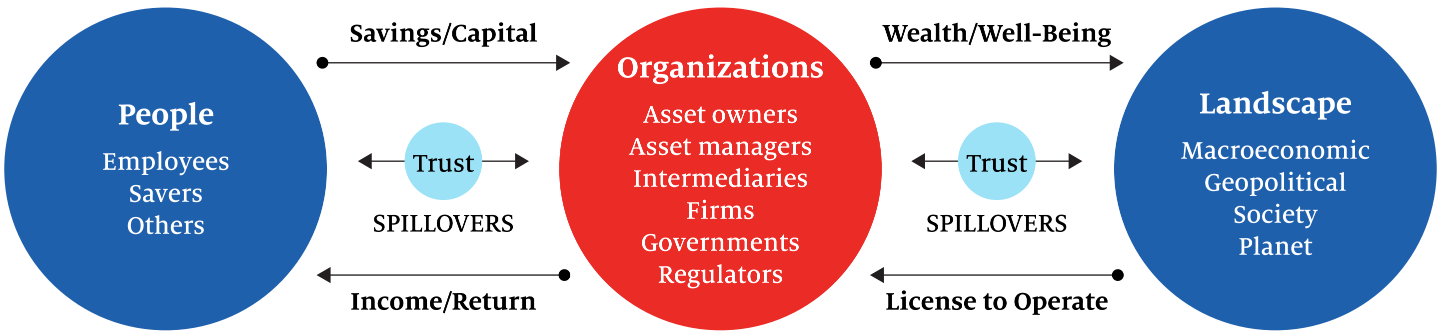
- **Fixed-rate Investment Instruments**
  - **Bonds:** Fixed-income instrument which yields returns at a fixed rate of interest.
  - **Public Provident Fund:** Under this scheme, interest on principal investment is paid by the government.
- **Market- Linked Investment Instruments**
  - **Stocks** refer to **equity investment** made in any company.
  - **Mutual funds** pool money from multiple investors and invest in various financial instruments including equities, debt securities, venture capital etc.
  - **National Pension Scheme** pools in money from numerous investors and then invests the corpus in various equity and debt securities.

- Alternative Investment Instruments

THE MAJOR TYPES OF ALTERNATIVE INVESTMENTS

TYPE	ALTERNATIVE INVESTMENTS
Commodities	Physical materials and natural resources: foodstuffs, precious and industrial metals, oil and natural gas.
Collectibles	Tangible items whose value can increase over time: art and antiques, jewelry, coins and stamps, vintage wine, books.
Real estate	Physical property and raw land.
Private equity	Investments that aren't publicly traded: limited partnerships, private company stock or debt, hedge funds.
Derivatives	A contract between two parties that's built on speculation about the changing value of an underlying asset: options, futures contracts, swaps.

INVESTMENT ECOSYSTEM



In the recent years, India has emerged as one of the most attractive destination for investment and doing business.

2. Why India is a preferred destination for investment?

India offers a growing and thriving environment for investments, both domestic and foreign. Some of the reasons which make India as a magnet of investments are:

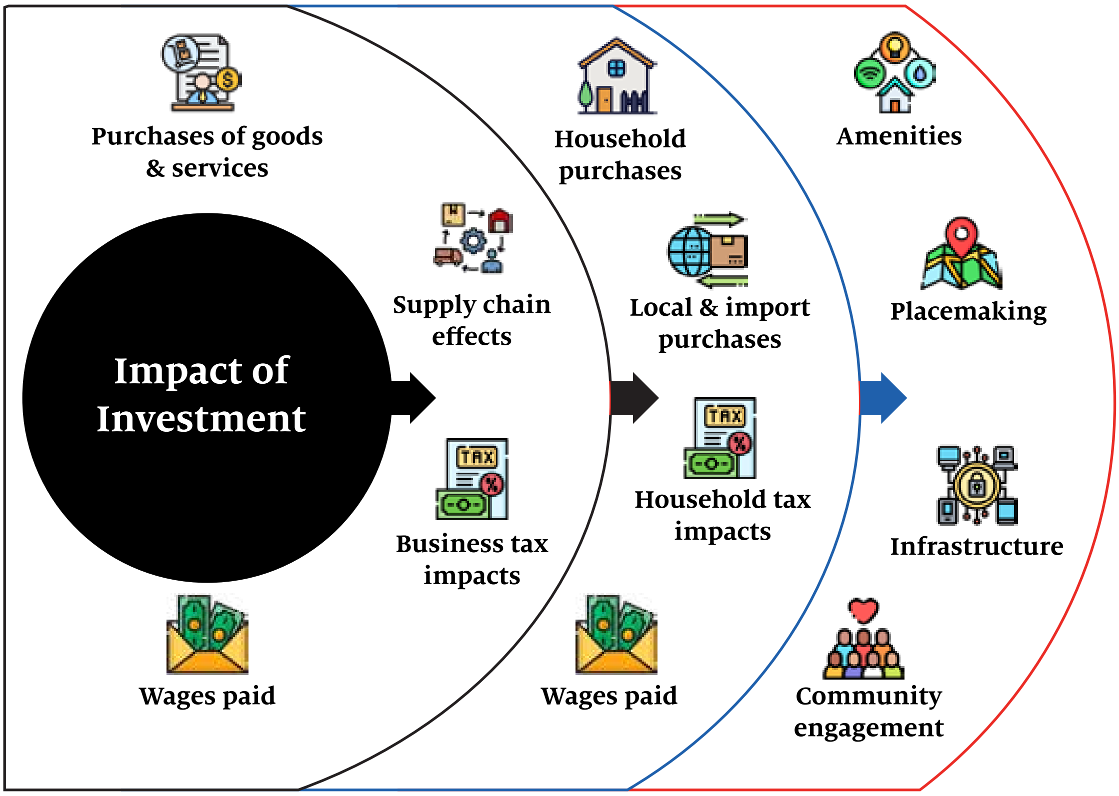
- **Economic Growth:** Multiple agencies including **IMF, World Bank have predicted India to be the fastest-growing economy** in 2023-24, even as major economies such as USA continue to shrink under the pressure of a global economic slowdown.
- **Geographical Location:** India's strategic location at **crossroads of major trade routes (Strait of Malacca, Hormuz), close to markets of South East Asia, Middle East,** ensures efficient connectivity with global markets and **attract international investors** seeking access to diverse and expanding trade networks.
- **Skilled Workforce:** India has a rich and **wide pool of skilled and educated professionals,** particularly in **fields of information technology, engineering, and sciences.** This skilled labour force **attracts Multi-national companies (MNCs)** and **investors** looking for talent.
- **Investor Friendly Policy:** Indian government steps like single window clearance, easy entry and exit policy; ease in FDI norms etc. has improved the business environment which can further boost the investment rate in India.
- **Infrastructure Development:** Indian government has been **investing in infrastructure development** (e.g. National Infrastructure Pipeline), **including transportation** (National Waterways and multi-modal connectivity), **energy, and logistics** etc. Improved infrastructure can **reduce operational costs and enhance the overall business** environment.
- **Global Offshoring:** Global companies have been **outsourcing services such as software development, customer service etc. to India** since the advent of Internet. Emergence of distributed work models is further bringing new momentum to the idea of India as the back office to the world.
    - In coming decade, number of people employed in India for jobs outside the country is likely to at least double, reaching more than 11 million by 2030.

- **Political Stability:** India is recognized as a **stable democracy** and its **political system has shown resilience** over the years. Stability of central government, enhanced bilateral and multilateral relations and **successful hosting of G-20 contribute to an increase in investment flows.**
- **Investment in manufacturing:** India is poised to become the **factory to the world with corporate tax cuts, investment incentives and infrastructure spending** helps in **driving capital investments** in manufacturing.
  - As per Morgan Stanley report, Manufacturing's share of GDP in India could increase from 15.6% currently to 21% by 2031.
- **Energy transition:** Rise in India's energy consumption along with **transition towards renewable energy** (500GW by 2030) **opens up a new segment to boost investment growth.**
  - India's commitment to **clean energy initiatives (e.g. Green Hydrogen Mission) can attract investors** keen on participating in growing and environmentally conscious energy sector in India.
- **Consumer Market:** India is the most populous country, making it **one of the largest consumer markets** in the world. Also, the large and fast growing middle class, diverse population presents significant opportunities to tap into the expanding consumer base.
- **Demographic Dividend:** With world's **largest youth population,** around 66 percent of India's total population is below age of 35. This demographic dividend is a **key attraction for foreign investors** and act as a catalyst for **robust workforce, economic growth, and productivity.**
- **Natural Resources:** India is endowed with **diverse natural resources, including fertile alluvial plains, mineral rich Chota Nagpur Plateau** etc. plays a crucial role in attracting investment. These resources **support industries like agriculture, mining** and offer **opportunities for sustainable development and investments** in renewable energy, making India an appealing destination for a broad spectrum of investors.

3. What impact an investment creates on developing economy like India?

Investment needs are much higher in developing than in developed economies as it is pivotal in shaping the landscape of developing nations like India, which aspires to become a developed country by 2047. The growth of the past two decades has been driven by robust domestic demand, strong investment activity bolstered by government's push for investment.

- **Growth and revenue generation:** Along with macroeconomic stimulus due to investment, it drives growth by **raising total factor productivity, employment and the efficiency of resource** use in the recipient economy. Successful investments contribute to **increased economic activity, leading to higher tax revenues** for the government.
- **Transfer of technology:** Investment promotes technology transfer from developed to developing countries **through FDI, foreign licensing, joint ventures** etc. Foreign technology collaboration acts as an effective means to **address technology gap in any developing economy** and boost development, streamline production etc.
  - For instance, **Brazil** has started **sharing technology with India** to help it achieve **20% ethanol blending for petrol by 2025-2026,** and will improve productivity in livestock and poultry sector.
- **Promotes competition:** Investment promotes **growth of new players/enterprises in market** and spurs domestic competition and thereby leading eventually to higher productivity and lower prices.
  - Between 1991 and 2012, **number of Multinational Companies (MNCs) in India quadrupled** and there has been a consistent rise in FDI in last decade, with **FY22 receiving $84.8 billion,** despite COVID pandemic.
- **Integration and Trade:** Investment aids integration into the global economy by boosting foreign trade flows. Investment also contributes to **improving balance of payments of host countries** by increasing export opportunities and reducing imports and flow of foreign capital.
- **Infrastructure Development:** Investments often lead to creation and improvement of infrastructure, including **transportation networks, energy facilities, and communication systems,** which can enhance productivity, reduce transaction costs, and attract further investments.
- **Increased Foreign Exchange Reserves:** Foreign investments can lead to an increase in a country's foreign exchange reserves. This provides a **cushion against economic uncertainties** and can be used to stabilize the national currency, making the economy more robust.
- **Improved Standard of Living:** A growing economy, driven by investments, generally results in an improved standard of living for the population. This includes **better access to education, healthcare,** and other essential services.



DIRECT EFFECTS

The initial changes that result from economic activity.

INDIRECT EFFECTS

The impact of local industries buying goods and services from other local industries as a result of influence in the industry.

INDUCED EFFECTS

Response by the economy to an initial change that occurs through re-spending of income received by wage earners.

SOCIAL EFFECTS

The qualitative impacts that occur in the community as a result of economic activity.

Box 3.1. In Conversation: Impact investments

Vini: Hey Vinay, have you ever considered impact investments?

Vinay: Not really. What's that about?

Vini: It's about deployment of funds into investments that generate a measurable and beneficial social or environmental impact alongside a financial return on investment.

Vinay: Can you give any example?

Vini: Yes. For instance, Mumbai courier company employs hearing-impaired youth, creating jobs and leveraging opportunities in logistics industry to generate profits.

Vinay: Interesting concept. Platforms like Global Impact Investing Network are dedicated to impact investing.

Vini: Absolutely right. And in India its major focus areas are financial inclusion, healthcare, clean energy, education, gender equality, etc.

Vinay: I'll look into it. It sounds like a meaningful way to invest. Thanks for sharing, Vini!

Vinay

Vini

4. What are the measures taken to attract investment?

Various concerted efforts have been made by Government to build an investor-friendly ecosystem that supports domestic investors as well as Foreign Direct Investment (FDI) and will boost the economy manifold.

Table 4.1. Efforts taken by India to attract investment

Manufacturing	
Make in India	Launched in 2014 to **facilitate investment, foster innovation, protecting Intellectual Property (IP), building best in class infrastructure,** and making India a hub for manufacturing. Presently, it focuses on 27 sectors.
Investor Facilitation Cell (IFC)	Dedicated for Make in India campaign, it was formed to **assist investors in seeking regulatory approvals, hand-holding services through the pre-investment phase,** execution and after-care support.
Empowered Group of Secretaries (EGoS) and Project Development Cells (PDCs)	Approved to work in coordination with Central and State Governments to **develop investible projects and thereby in turn increase FDI inflows.** New mechanism of **EGoS and PDCs will give a much-required boost to 'Make in India' initiative** and supplement India's vision of becoming a US$ 5 trillion economy by 2024-25.
Production Linked Incentive (PLI) Scheme	Launched in 2020, it aims to **attract investments in 14 key sectors like mobiles, electrical components, etc and cutting-edge technology;** ensure efficiency and bring economies of size and scale in manufacturing sector and make Indian companies and manufacturers globally competitive.
Taxation Laws (Amendment) Act, 2019	It **reduced Corporate Tax Rates for domestic firms (30% to 22%) and new domestic manufacturing companies (25% to 15%)** to bring investments in Make in India (manufacturing), boost employment and economic activity, leading to more revenue.
Phased Manufacturing Programme (PMP)	It would **promote indigenous manufacturing** of mobiles handsets, Electric Vehicles, and their assemblies/sub-assemblies/sub-parts by offering incentives for building an ecosystem within country. It would help to **meet demand and boost exports.**
Enhancement of Competitiveness in Indian Capital Goods Sector- Phase 2, Ministry of Heavy Industries	It facilitates **adoption of Industry 4.0 and promotes investments in manufacturing sector,** indigenization of technologies and creation / augmentation of common service infrastructure / testing facilities.
Business Facilitation	
Ease of Doing Business (EoDB) Index	It was **published by World Bank** since 2003 (discontinued in 2021). It ranked 190 economies. **In 2020, India was ranked at 63rd in EoDB.** It **attracts Foreign Investment** by changing investor sentiments and **encourages exports** by improving competitiveness.
Jan Vishwas (Amendment of Provisions) Act, 2022	It **reduces the compliance burden** on individuals and businesses and **ensures trust-based governance for ease of living and doing business.**
Invest India, Department of Industrial Policy & Promotion, Ministry of Commerce and Industry	It is the **National Investment Promotion and Facilitation Agency of India,** set up as a non-profit venture. It **facilitates and empowers all investors under the 'Make in India' initiative** to establish, operate and expand their businesses in India.

National Infrastructure Pipeline (NIP) for FY 2019-25	➢ It facilitates the implementation of world class infrastructure projects, **attract investments into infrastructure,** boost the economy, generate better employment opportunities, and drive competitiveness of Indian economy.
National Monetisation Pipeline (NMP)	➢ NMP is designed to **unlock the value of investments in brownfield public sector assets** by tapping institutional and long-term capital. ➢ It aims to **monetise Rs 6.0 lakh crores through core assets of Central Government** over four-year period from **FY2022 to 2025.**
Simplified Performa for Incorporating Company Electronically (SPICE+), Ministry of Corporate Affairs	➢ It helps to save many procedures, thereby **reduces time and cost for Starting a Business in India** and would be applicable for all new company incorporations.
National Intellectual Property Rights (IPR) Policy 2016	➢ It **encourages innovation, entrepreneurship and creativity** by providing stronger protection and incentives for inventors, artists, and creators. It **promotes research and development through tax benefits.** ➢ **India retains 40th rank** out of 132 economies in **Global Innovation Index 2023** rankings published by the World Intellectual Property Organization.
National Investment and Infrastructure Fund (NIIF)	➢ NIIF is **India's first sovereign wealth fund, to promote investments in the infrastructure sector.** ➢ It has been **set up as a trust** registered with **Securities and Exchange Board of India (SEBI).** ➢ Currently, **NIIF manages over $4.9 billion in assets** through its funds: Master Fund, Fund of Funds, Strategic Opportunities Fund, and India-Japan Fund.
Foreign Investment	
Foreign Direct Investment (FDI)	➢ To promote foreign investment, Government has put in place an investor friendly policy, wherein most sectors open for **100% FDI under automatic route.** ➢ **Top 5 States receiving highest FDI Equity Inflow** during FY 2022-23 are Maharashtra (29%), Karnataka (24%), Gujarat (17%), Delhi (13%), and Tamil Nadu (5%).
Foreign Exchange Management Act (FEMA)	➢ FEMA aims to **facilitate external trade, attract foreign investments, and maintain stability** in the foreign exchange market. ➢ In 2022, Government has amended FEMA rules to allow **20% FDI in Life Insurance Corporation of India (LIC)** under automatic route.
Bilateral Investment Treaties (BITs)	➢ BITs are international agreements establishing the terms and conditions for **private investment by nationals and companies** of one country to another country. ➢ India had signed BITs with many countries including Belarus; United Arab Emirates; Lithuania etc.
Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry	➢ It promotes industrial development of country by **facilitating investment in new and upcoming technology, accelerate & FDI and support** a balanced development of industries & trade.
Government support	
National Single Window System (NSWS), Ministry of Commerce & Industry	➢ It is a one-stop digital platform for businessmen seeking **regulatory approvals and services related to investments.** It would help businesses in identifying and applying for required approvals to start or run their businesses.

Investment Clearance Cell (ICC)	➢ Announced in Budget 2020-21 to provide **"end to end" facilitation and support to investors, including pre investment advisory,** provide information related to land banks and facilitate clearances at Centre and State level.
Insolvency and Bankruptcy Code (IBC) 2016,	➢ It played a significant role in **attracting foreign investment into India. The transparent and efficient resolution process** has instilled confidence in international investors looking to invest in distressed assets.
Start-ups	
Pradhan Mantri Mudra Yojana	➢ It provides **funding upto 10 lakh to non-corporate small business sector** through various last-mile financial institutions like Banks, Non-Banking Financial Companies (NBFCs) and Micro Finance Institutions (MFIs).
Fund of Funds for Startups (FFS) Scheme	➢ Government has established FFS with **corpus of Rs. 10,000 crore,** to meet the **funding needs of startups.** ➢ **DPIIT is the monitoring agency** and **Small Industries Development Bank of India (SIDBI) is the operating agency** for FFS.
Income Tax Exemption for 3 years	➢ Startups incorporated **on or after 1st April 2016** can apply for income tax exemption. ➢ Recognized startups that are **granted an Inter-Ministerial Board Certificate are exempted from income tax** for a period of 3 consecutive years out of 10 years since incorporation.
Startup India Seed Fund Scheme (SISFS)	➢ It provides **financial assistance to startups** for proof of concept, prototype development, product trials, market entry and commercialization.

Box 4.1. Rise of Ethical Investing

Ethical investing is an investment strategy in which an **investor chooses investments based on an ethical code, such as religious, social, moral or social values,** and financial returns. In India, ethical investing is **increasing due to global trends, COVID-19 impacts, awareness due to social media, and expanding investment sectors** like agriculture, energy etc.

Types of Ethical Investments

- ➢ **Socially Responsible Investing (SRI)** generates **social change and financial returns** for an investor. It **avoids investing in controversial areas** like gambling, firearms, tobacco, alcohol, etc. and **invests in companies making a positive impact,** like solar energy company.
- ➢ **Environmental, Social and Governance (ESG) investing** considers ESG factors to judge an investment's financial returns and its overall impact (refer image).
- ➢ **Faith-based Funds only invest in stocks that follow religious values and ideals,** and strictly exclude investments that don't fit the category.

Benefits and Challenges of Ethical Investing

BENEFITS			
Promotes Corporate Social Responsibility	Contributes to Sustainable Development	Aligns Investments With Personal Values	Potential for Positive Financial Returns

CHALLENGES		
Lack of Standardization	Limited Investment Options	Balancing Ethical and Financial Considerations

WHAT FACTORS ARE CONSIDERED?

ENVIRONMENTAL	SOCIAL	GOVERNANCE
• Carbon emissions • Waste management practices • Resource usage	• Labor standards • Human rights • Community relations	• Executive pay • Board diversity • Transparency

5. What are the challenges in attracting investments in India?

The investment climate in India has undergone significant transformations, positioning it as an attractive destination for global investors. India witnessed an impressive growth of 85.09% since 2015, reaching the highest-ever annual FDI inflow of US$83.57 billion in FY22 (DPIIT). While India's investment landscape is thriving, certain challenges pose concerns for investors.

- **Complex tax structures:** Rapid changes in policies and inconsistent implementation can create uncertainty for investors.
  - For example, sudden changes in tax structure impact certain sectors, such as gaming industry, which faced a 28% GST on gross revenue.
- **Concentration: Uneven development of economic hubs** like Special Economic Zones, Export Promotion Zones, and recent mega Global Financial Centre in Gujarat is not conducive to the holistic growth of the country.
  - Also, **economic disparity among states,** with only the **top 5 states** (Maharashtra, Tamil Nadu, UP, Gujarat, and Karnataka) **contributing about 50% of India's total GDP,** suggests inefficient resources utilization.
- **Infrastructural hurdles:** Despite improvements, India still faces challenges in terms of **inadequate infrastructure, particularly in sectors such as transportation, energy, and logistics.**
  - For instance, US-based auto leader Ford and bike maker Harley-Davidson discontinued their India operations in recent years, along with other notable exits like Cairn Energy, Daiichi Sankyo, and Carrefour.
- **Logistics:** There is a **high cost to logistics due to heavy reliance on road transport, lack of multi modal connectivity and poor port infrastructure etc.** Further, logistics cost is higher for low value or bulk items such as those in the agricultural sector.
- **Skill Shortages:** Despite having a large and young population, there are challenges related to skill shortages in industries, further **hindering MNCs from shifting operation to India** as well as **deters investment.**
  - 'National Employability Report for Engineers 2019' by Aspiring Minds, has shown that **over 80% of engineers in India are unfit to take up any job** in the knowledge economy.
- **Labour Laws:** The complexity of labour laws and the challenges associated with labour market flexibility can be a concern for investors. Reforms in labour laws to balance worker rights with the need for flexibility in hiring and firing are often debated.
- **Geopolitical factors:** The fallout of the **war in Ukraine with the triple food, fuel and finance crises,** along with the **Covid-19 pandemic and climate disruption,** are adding stress, particularly in developing countries leading to a decline in investment.
  - According to 'Investment Trend Monitor' by UNCTAD, global FDI has seen a sharp decline (42%) in 2020 because of COVID-19 pandemic from US$1.5 trillion in 2019 to US$859 billion in 2020.

6. What measures can be taken to tackle challenges in attracting investments?

Despite several challenges which impede the attraction of investments in any country or region, several steps can be taken to reduce bureaucratic hurdles, providing incentives, investing in infrastructure etc. These include

- **Open markets:** Reduce restrictions on FDI and **providing open, transparent and dependable conditions** for all kinds of firms, whether foreign or domestic, relatively flexible labour markets and protection of IPR can boost the investment flows in the country.
- **Infrastructure Creation:** There is need to establish high-quality infrastructure, **ensure multi modal connectivity, adequate and reliable supply of energy, skilled workforce,** etc. It can be done through public-private partnerships designed in cooperation with investors to attract foreign investments.
- **Develop skilled workforce:** A skilled workforce is critical **for attracting foreign investment,** as investors look for talent to support their operations. Therefore, **increasing government spending on education and training programs** designed to ensure market oriented skills can further boost investment flows.
- **Strengthening relationships:** Building strong international relationships through **bilateral and multilateral agreements, utilising platforms like Foreign Investment Advisory Service (FIAS) of the World Bank etc.** to attract foreign investment. This can also **provide access to new markets and technology,** which can drive economic growth.
- **Offer incentives and tax breaks:** Governments can offer a range of incentives and tax breaks to attract investment. Measures such as tax holidays, reduced tariffs, and exemptions from certain taxes, incentives in terms of grants and subsidies can support investment in specific industries or regions.

- **Coordination:** Strengthen co-ordination at policymaking and implementing levels by **establishing inter-ministerial councils, task forces and working groups.** Setting up effective multi-level governance systems and involving stakeholders such as industry, academia etc. can address implementation challenges.
- **Strengthen linkages:** Implement comprehensive **cluster development programmes facilitating business linkages, cross-sectorial interactions,** taking into account local businesses and available resources. Also steps should be taken to provide **investment facilitation and aftercare services to foster integration of foreign investors in local economies** through strategic partnerships and collaboration with domestic entrepreneurs.
- **Promotion strategies:** Implement investment promotion strategies that allow to **identify, prioritise and attract productivity-enhancing and knowledge-intensive investment,** through intelligence gathering (e.g. market studies), sector-specific events (e.g. business fairs, country missions), and pro-active investor engagement (e.g. one-to-one meetings, campaigns, enquiry handling).

Investment for SDGs

	SHORT-TERM IMMEDIATE FIRE-FIGHTING	MEDIUM-TERM SUPPORTING DEMAND DURING REOPENING PHASE	LONG-TERM INVESTING IN "BUILDING BACK BETTER"
ECONOMIC AND SOCIAL IMPACT	Finance and demand shocks threaten firms and job losses, incomes fall, public and private services reduce activity	Firm bankruptcies, incomes lagging from reduced economic activity, risk to most vulnerable	High debt levels prevent new investment. Depressed demand leads to permanently lower growth in all sectors
SDG IMPACTED	INDUSTRY HEALTH HUNGER GENDER EQUALITY	POVERTY EDUCATION JOBS INEQUALITIES RESPONSIBLE CONSUMPTION	INFRA-STRUCTURE ENERGY WATER CLIMATE SUSTAINABLE CITIES BIODIVERSITY GOVERNANCE

Conclusion

Promoting and attracting foreign Investment in India is crucial for country's economic progress and advancement. India has successfully implemented various schemes and policies to create a favourable investment climate, and to foster a conducive business environment. Corporate tax reduction; reduced FDI restrictions etc. could result in FDI inflows of US$ 120-160 billion annually by 2025. However, sustaining and further increasing foreign investment requires government's on-going commitment to reforms, promoting stability, and addressing any remaining challenges. By doing so, India can continue its trajectory as a global investment destination, leading to long-term economic prosperity.

TOPIC AT A GLANCE INVESTMENT ECOSYSTEM IN INDIA

Investment refers to **expenditure incurred to create new capital assets.** These capital assets include buildings, machinery, raw material, equipment, etc. **Expenditure on these assets** results in an **increase in economy's productive capacity.** Different forms of investment are **Fixed Rate** (Bonds), **Market Linked** (Stocks, Mutual Funds) and **Alternative Investment Instruments** (Commodities, Real Estate).

Why India is a preferred destination for investments?

- **IMF, World Bank predicted India to be the fastest-growing economy** in 2023-24.
- Located at crossroads of **major trade routes (Strait of Malacca, Hormuz), and close to markets of South East Asia, Middle East.**
- **Skilled Workforce and educated professionals, in fields of information technology, engineering, and sciences.**
- **Investor Friendly Policy** like single window clearance, easy entry and exit policy; ease in FDI norms etc.
- **Investment in infrastructure development** including transportation, energy, etc. and manufacturing.
- Global companies **outsourcing services like software development, customer service etc. to India.**
- **Political Stability** and **successful hosting of G-20 contribute to an increase in investment** flows.
- Rising Energy **transition towards renewable energy** (500GW by 2030) **boost investment growth.**
- **Largest youth population** (around 66 percent of India's total population is below 35 years) **attracting foreign investments.**
- **Diverse natural resources, including mineral rich Chota Nagpur Plateau** is attracting investment.

Efforts taken by India to attract investment

- **Manufacturing: Make in India;** Investor Facilitation Cell; Empowered Group of Secretaries (EGoS) and Project Development Cells (PDCs); **Production Linked Incentive Scheme; Taxation Laws (Amendment) Act, 2019 etc.**
- **Business Facilitation: Ease of Doing Business Index;** Jan Vishwas (Amendment of Provisions) Act, 2022; Invest India; **National Infrastructure Pipeline for FY 2019-25; Simplified Performa for Incorporating Company Electronically (SPICE+).**
- **Foreign Investment:** Foreign Direct Investment; **Foreign Exchange Management Act (FEMA); Bilateral Investment Treaties.**
- **Government Support: National Single Window System,** Ministry of Commerce & Industry; **Insolvency and Bankruptcy Code 2016;** Investment Clearance Cell.
- **Start-ups: Pradhan Mantri Mudra Yojana;** Fund of Funds for Startups (FFS) Scheme; **Income Tax Exemption for 3 years;** Startup India Seed Fund Scheme (SISFS) etc.

What impact an investment creates on developing economy like India?

- **Increased economic activity, leading to higher tax revenues** for government.
- **Promotes technology transfer** from developed to developing countries.
- Promotes **growth of new players/enterprises in market and spurs domestic competition.**
- Aids integration into global economy by **boosting foreign trade flows and improving balance of payments of host countries.**
- Creation of infrastructure enhances productivity and investments.
- **Increased Foreign Exchange Reserves provides a cushion against economic uncertainties** and can be used to stabilize national currency.
- **Improved Standard of Living** for population. This includes **better access to education, healthcare etc.**

Challenges in attracting investments in India

- **Complex tax structures:** Sudden changes in tax structure **impact certain sectors, like gaming industry,** which faced a 28% GST on gross revenue.
- **Uneven development of economic hubs** like Special Economic Zones, and recent mega Global Financial Centre in Gujarat is **not conducive to holistic growth** of country.
- **Inadequate infrastructure,** particularly in sectors like transportation, energy, and logistics.
- Skill shortages in industries, **hindering MNCs from shifting operation to India and deters investment.**
- **Complexity of labour laws** and challenges associated with labour market flexibility can be a concern for investors.
- **Geopolitical factors** like fallout of **war in Ukraine with triple food, fuel and finance crises,** along with **Covid-19 pandemic and climate disruption,** leading to a decline in investment.

Way forward

- **Reduce restrictions on FDI** and **providing open, transparent and dependable conditions** for all kinds of firms, **flexible labour markets and protection of IPR** can boost investment flows in country.
- **Establish high-quality infrastructure,** ensure multi modal connectivity, adequate and reliable supply of energy, skilled workforce.
- **Develop skilled workforce for attracting foreign investment,** as investors look for talent to support their operations.
- Building strong international relationships through **multilateral agreements, utilising platforms like Foreign Investment Advisory Service (FIAS) of World Bank etc.** to attract foreign investment.
- Governments can offer a **range of incentives and tax breaks to attract investment** such as tax holidays, reduced tariffs etc.

Figures, Tables and Boxes