INVEST

FOREIGN DIRECT INVESTMENT

According to UNCTAD's World Investment Report 2023, FDI inflows reached USD 49.3 billion in 2022, up by 10.3% year-on-year, making it the third-largest host country for announced greenfield projects and the second-largest for international project finance deals, as well as the eighth-largest FDI recipient worldwide. Among the largest greenfield projects was the plan by Foxconn (Taiwan) and Vedanta Resources (India) to build one of the first chip factories in India for USD 19 billion and a USD 5 billion project to produce urea from green hydrogen by a joint venture of TotalEnergies (France) and Adani Group (India). In the same year, the total stock of FDI stood at 510.7 billion, around 15.1% of the country’s GDP. In terms of outward FDI, Indian multinational enterprises (MNEs) experienced a 16% decline in outward investment, totalling USD 15 billion. Nonetheless, there was a notable surge in greenfield project declarations by Indian MNEs, reaching USD 42 billion, more than triple the previous figures. Among the significant greenfield ventures, two standout projects were in the renewable energy sector: Acme Group disclosed plans for a USD 13 billion facility in Egypt aimed at producing 2.2 billion tons of green hydrogen annually, while ReNew Power unveiled intentions to establish a USD 8 billion green hydrogen plant within the Suez Canal Economic Zone. Data from Invest India show that total FDI inflows in the country in FY 22-23 amounted to USD 70.97 billion, with total FDI equity inflows standing at USD 46.03 billion. Mauritius (24%), Singapore (23%), the U.S. (9%), the Netherlands (7%), and Japan (6%) emerged as the top five countries for FDI equity inflows into India during the period; whereas the services sector (finance, banking, insurance, non-fin/ business, outsourcing, r&d, courier, tech. testing and analysis, other - 16%), computer software & hardware (15%), trading (6%), telecommunications (6%), and the automobile industry (5%) were the main sectors. The top five states that received the highest FDI equity inflow during FY 2022-23 were Maharashtra (29%), Karnataka (24%), Gujarat (17%), Delhi (13%), and Tamil Nadu (5%).

In recent years, India has implemented significant structural economic reforms aimed at enhancing the business environment. These reforms encompass liberalizing restrictions on foreign investment, updating bankruptcy and labour laws, abolishing retroactive taxation, and replacing state border taxes with a national Goods and Services Tax. Nevertheless, persistent protectionist measures hinder the expansion of bilateral trade and pose challenges for Indian producers seeking integration into global supply chains. These measures include imposing some of the highest tariffs among major economies, promoting manufacturing localization to foster "self-reliance," and implementing India-specific standards and regulations that effectively exclude foreign goods and services. Global investors typically focus on India mainly because of its demographics, but also for its stable barometers, whether it be inflation, fiscal deficit or growth. However, the country still has several restrictive laws on foreign investment, excessive bureaucracy, and high levels of corruption. Still, given India’s growing demographics, and huge e-commerce and technological markets, activity in both areas is expected to grow in the upcoming years. FDI entering India is subject to either the "automatic route" or the "government route" review process. The majority of sectors fall under the automatic route, where foreign investors only need to notify India's central bank, the Reserve Bank of India (RBI), and adhere to applicable domestic laws and regulations for the respective sector. Conversely, investments in specific sensitive sectors, like defence, undergo scrutiny under the government route. This necessitates prior approval from the ministry overseeing the concerned sector, along with the agreement of DPIIT (Department for Promotion of Industry and Internal Trade). India ranks 40th among the 132 economies on the Global Innovation Index 2023 and 126th out of 184 countries on the 2023 Index of Economic Freedom.

Foreign Direct Investment	2020	2021	2022
FDI Inward Flow *(million USD)*	64,072	44,763	49,355
FDI Stock *(million USD)*	480,127	514,112	510,719
Number of Greenfield Investments*	411	459	1,008
Value of Greenfield Investments (million USD)	22,750	16,374	77,946

Source: UNCTAD - Latest available data.

*Note: * Greenfield Investments are a form of Foreign Direct Investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.*

Country Comparison For the Protection of Investors	India	South Asia	United States	Germany
Index of Transaction Transparency*	8.0	5.8	7.0	5.0
Index of Manager's Responsibility**	7.0	5.0	9.0	5.0
Index of Shareholders' Power***	7.0	7.4	9.0	5.0

Source: Doing Business - Latest available data.

*Note: *The Greater the Index, the More Transparent the Conditions of Transactions. **The Greater the Index, the More the Manager is Personally Responsible. *** The Greater the Index, the Easier it Will Be For Shareholders to Take Legal Action.*

WHAT TO CONSIDER IF YOU INVEST IN INDIA

Strong Points

Advantages for FDI in India:

- Deep-rooted and highly effective democratic regime, which ensures a calm and stable political environment
- Well-developed administration and an independent judicial system, along with a vast geography, making the country a repository of resources
- Work force is educated, hard-working and skilled (engineers, management staff, accountants and lawyers).
- India hosts an ever-growing consumer base, making it one of the world's largest markets for manufactured goods and services.
- Proximity to key manufacturing sites, key suppliers and low development costs. These factors make it an effective base from which multi-national companies can export to other high-growth emerging markets.
- Transparency International gave Indian companies the top ranking among emerging market multinationals in terms of transparency and compliance.

Weak Points

Some of the principal disadvantages for FDI in India :

- Lack of adequate infrastructure slowing down the development of this country-continent
- Cumbersome and slow administrative procedures at the federal level hindering any economic reform (bureaucratic red tape)

- Labour regulations remaining rigid and among the most complex in the world
- High corporate debt and non-performing assets (NPA)
- Net importer of energy resources
- Weak public finances

Government Measures to Motivate or Restrict FDI

The Government of India provides tax and non-tax investment incentives in specific sectors (e.g. electronics) and regions (Northeast region, Jammu & Kashmir, Himachal Pradesh and Uttarakhand). It has also created incentives for manufacturing companies to set up in Special Economic Zones (SEZ), National Investment & Manufacturing Zones (NIMZ) and Export Oriented Units (EOUs). In addition, each state government has its own policy, providing additional investment incentives, including subsidised land prices, attractive interest rates on loans, reduced tariffs on electric power supply, tax concessions, etc. The central government development banks and state industrial development banks offer medium to long-term loans for new projects.

The Government has recently relaxed FDI policy in a variety of sectors by such measures as raising the foreign investment limit, easing conditions for investment and putting many sectors on the 'automatic route' (as opposed to the 'Government route', which requires approval from the Foreign Investment Promotion Board). Reforms to clean up the banking system have been implemented, but they take time and may impact the supply of credit. On the other hand, while the fiscal deficit and public debt remain large, the government has taken steps to reduce them. The most notable of these initiatives is the introduction of the GST (Good and Services Tax), which aims to boost tax revenues and make the economy more competitive in the long run. Sectors that have benefited from the expansion include real estate, private banking, defence, civil aviation, single-brand retail and television news.

In order to position India as a global hub for Electronics System Design and Manufacturing (ESDM) and push further the vision of the National Policy on Electronics (NPE) 2019, three schemes namely the Production Linked Incentive Scheme (PLI), Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS) and Modified Electronics Manufacturing Clusters Scheme (EMC 2.0) have been notified.

For more information, consult the website of Invest India, the official Investment Promotion and Facilitation Agency of the Government of India.

INVESTMENT OPPORTUNITIES

The Key Sectors of the National Economy

There are 12 champion sectors: modular furniture, toys, food processing like ready-to-eat food, agro-chemicals, textiles like man-made fibres, air conditioners, capital goods, pharma and auto components
The services sector is by far the most dynamic in India. It accounts for 48.9% of GDP. India is the fourth largest agricultural power in the world. Agriculture accounts for 18.3% of GDP and employs 43% of the active population (World Bank). The country is also the fourth largest coal producer in the world. In the manufacturing industry, textiles play a predominant role. The chemical industry is the second largest industrial sector and contributes 3% to global chemical industry. Finally, the sectors of new technologies (software) and telecommunications are booming. India is the world's largest BPM destination, which represent 8% of India's GDP (Invest India).

For more information, visit Invest India.

High Potential Sectors

Airport services, ground handling, computers and devices, educational services, electrical power, transmission equipment, food processing, machine tools, medical equipment, equipment for mining and mineral processing, machinery for oil and gas fields, pollution control equipment, security, telecommunications equipment, textile machinery, water, renewable energy, urban infrastructure and services (access to water, waste treatment), electricity, cosmetics, and luxury goods.

Privatization Programmes

India has been privatising its large, mostly non-profitable public sector: telecommunications, public infrastructure, airways, ports, etc.

Tenders, Projects and Public Procurement

Asian Development Bank, Procurement Plans in Asia
DgMarket, Tenders Worldwide

Sectors Where Investment Opportunities Are Fewer

Monopolistic Sectors

The government exercise control through sector-specific restrictions on foreign investments in sensitive sectors, such as defence and media, but also railways, power generation & distribution (though it is being slowly privatised now), life and medical insurance (though it is also slowly opening up), manufacturing of arms, explosives, atomic energy and aerospace.

Moreover, foreign investment in India is prohibited for the following sectors or activities: lottery businesses, gambling and betting, chit funds, nidhi companies, trading in transferable development rights, real estate business or the construction of farm houses, manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes, activities or sectors that are not open to private sector investment, such as atomic energy and railway operations, foreign technology collaboration in any form, including licensing for franchises, trade marks and brand names. Management contracts are also prohibited for lottery businesses and gambling and betting activities.

Sectors in Decline

Agriculture.

Finding Assistance For Further Information

Investment Aid Agency

INVEST INDIA (National Investment Promotion & Facilitation Agency)
Foreign Investment Facilitation Portal (Ministry of Commerce and Industry)
Department for Promotion of Industry and International Trade

Other Useful Resources

India Brand Equity Foundation (IBEF)
Ministry of Finance
Ministry of Commerce and Industry

Doing Business Guides

India Country Commercial Guide (The U.S. Department of Commerce)
A Guide to Doing Business in India (RSM)
Doing Business in India Report (UK India Business Council)
India Tax Guide, Deloitte
Doing business in India - UHY