

Indian economy's \$100 billion FDI target

More and more of what used to be called 'the animal spirits' of Indian enterprise are awakening.



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For nearly a decade, year after year, India has hit record heights of foreign direct investment (FDI) inflow. The latest is the highest ever, \$83.5 billion, in the last financial year. Where does India's FDI story go from here?

The big target it is about to breach is \$100 billion in one twelve-month cycle. This would be a pivotal moment for the Indian economy. There are many things that this crossing of \$100 billion would showcase. This essay is about understanding what hitting the \$100 billion mark in FDI would mean for the Indian economy.

India is already among the top global recipients of FDI—in 2021, it had the seventh largest inflow. Hitting \$100 billion will place it among the top three or four economies in the world in terms of FDI receipts. At the top of the table are the US and China with their manufacturing and technology prowess and wealthy and immense markets, respectively.

The rise of India to a \$100 billion FDI status would be a marker for the transition the Indian economy is going through. Consider that for long, the country was considered a laggard in manufacturing but not anymore. With a structured approach to land and labour reforms and a push towards incentivizing manufacturing, estimates suggest that India's manufacturing exports could hit \$1 trillion by 2028.

Sectors like pharmaceuticals (where India showed its manufacturing muscle by producing tens of millions of vaccine doses for use at home and abroad during the Covid-19 pandemic), automobiles (where the country is building major new global electric vehicle hubs), chemicals, and even mobile phones (where India has become the second largest manufacturer in the world) are leading the transformation of Indian manufacturing.

Crossing the \$100 billion threshold would also showcase the strength of the Indian market and its capacity to absorb investment, goods and services. It would be a product of the \$1.4 trillion that India is spending (till 2023) to overhaul its infrastructure and fast-track development.

FDI has been inadequately studied and understood in India. It is a byproduct of a range of ingredients coming together—physical, digital, and a range of 'softer' elements which engender confidence in the economy and its future.

Consider two things, India has seen a more than 15,000% rise in the number of startups in the last six years, and at the same time, more than 22,000 compliances have been removed. These two elements are, as is evident, interconnected.

As the roadblocks to entrepreneurship have reduced, more and more of what used to be called 'the animal spirits' of Indian enterprise are awakening. This, in turn, is creating a climate which is welcoming foreign direct investment into sectors as diverse as food processing to animal husbandry, renewable energy to robotics. One of the world's biggest robotics centres, for instance, is coming up in the Noida region of India's most populous state, Uttar Pradesh.

India's deep digitisation has ensured the creation of one of the world's biggest and most democratic digital architectures for the delivery of goods and services, including financial transactions (where India now beats in sheer volumes even the US and China). In 2021, India had thrice the number of real-time transactions compared to China and more than six times the numbers of the US, the UK, France, Canada and Germany put together.

India has provided some of the best policy incentives to create a global electric vehicle hub as one of the rare countries in the world which is on track to meet its climate change goals.

The latest FDI numbers show us that more countries are putting in more money in a wider set of sectors, which is going to a wider catchment area across India. Particularly interesting is the trickling in of FDI in diverse Indian districts, including in some districts which have deep developmental needs—the so-called 'aspirational districts'.

When India reaches \$100 billion in FDI, it will be because of a combination of these factors. This is why when the \$100 billion mark is crossed in FDI, it will be one more critical example of India's arrival on the world stage, not just as a rising power but, in many ways, a risen one.

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