

# FDI from Fortune 500 companies: Race for investments to fund industrial projects in UP

Groundbreaking ceremony held in the state capital launched 14,000 projects worth more than Rs 10 lakh crores. The projects relate to sectors like Manufacturing, Renewable Energy, IT & ITeS, Food Processing, Housing & Real Estate, Hospitality and Entertainment, and Education among others.



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The fact that Foreign Direct Investment is crucial for a nation's economic growth is a foregone conclusion as it is known to stimulate economic activity, helps in the creation of an ecosystem that generates jobs, improves infrastructure, and gives exposure to cutting-edge

technologies that benefit host nations.

India received \$142.29 billion in foreign direct investments (FDI) between 2019 and 2022 up to which data is available for the entire financial year. Of this, 87.4% or \$124.4 billion of the FDI has flown into just 5 states: Maharashtra, Karnataka, Gujarat, Delhi, and Tamil Nadu. Among the 5 states, Maharashtra has received \$39.2 billion followed by Karnataka's \$34 billion.

Among sectors, the software industry has received a maximum of 23% of the total followed by the Services Sector (Finance, Banking, Insurance, Non-Fin/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis). Uttar Pradesh has achieved many milestones in the race for development in the last seven years. It has scaled up in the Ease of Doing Business ranking from the 14th rank in the country in 2017 to the second position in 2018. Moreover, Uttar Pradesh was ranked 5th in the country in terms of GDP, while presently, it stands in the second spot. And in the last 5 years, 3.14 crore people have risen out of poverty and the state also ranks first in the implementation of 41 schemes rolled out by the Government of India.

However, despite the many advancements, the state is still ranked 11th in attracting foreign direct investment. It is also worth considering that only 14 Fortune 500 companies have established their bases in the state, while in the state of Tamil Nadu, this number is 75. Although the state has attracted investors, there is vast scope for roping in big industries.

Top 5 States receiving the highest FDI Equity Inflow during FY 2022-23 are Maharashtra (29%), Karnataka (24%), Gujarat (17%), Delhi (13%), and Tamil Nadu (5%).

Top 5 sectors receiving the highest FDI Equity Inflow during FY 2022-23 are 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 Automobile Industry (5%).

This gives us a sneak view of the most sought-after sectors for FDI in India. UP has to search for its competency in the given sectors. It will also be worth searching for sectors that are new and where the state has some unique strengths.

While focusing on Fortune 500 companies it is important to understand what are the motives of these firms while deciding on FDI. There are two such motives:

**Resource seeking:** This primarily means either natural and scarce resources or Human resources. In Human Resources the focus is skilled labour or intellectual capital.

**Market Seeking:** This means exploiting an existing market. This market can be of the host state. Or, it can also be other markets both domestic and overseas which can be serviced through the FDI destination market.

Uttar Pradesh has a good store of natural and scarce resources. Alternatively sourcing it from neighbouring states is also not an issue. Yes, what the state needs to plan is creating world-class centres for developing human resources. This will greatly enhance competitiveness. We can join hands with top institutes across the globe to develop premier centres for science and technology, also focusing on areas like AI and Fintech.

Fortune 500 companies work with a set of competencies which justifies their position in the market. At the same time, they also have SOPs (Standard Operating Procedures) which enable their efficient working. As a part of this, they have a strong decision-making variable when deciding on investing in a state or country. That factor is institution. It includes both Social and Political institutions. This further includes four sub-environmental factors:

- Bureaucracy
- Corruption
- Infrastructure
- Technological

As a part of this, a Fortune 500 firm feels more confident when the destination has a strong IPR regime. It further also includes Tariff and Non-Tariff Trade barriers.

In line with these factors, the World Bank Group has developed The Ease of Doing Business (EoDB) Index. In the EODB index, 'higher rankings' (a lower numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights. This index is based on ten subindices namely:

- Starting a Business, Dealing with Construction Permits, Getting Electricity,
- Registering Property, Getting Credit, Protecting Minority Investors, Paying Taxes
- Trading across Borders, Enforcing Contracts, Resolving Insolvency

Uttar Pradesh has been working on these points. In fact, in 2020 it jumped to rank 2 from 18th position as per the GOI study. As a result the state has seen a surprising rise in Foreign Direct Investment (FDI). In terms of FDI in the five years between 2019 and 2023, Uttar Pradesh has left behind 22 states including Andhra Pradesh, Punjab, Kerala, Chandigarh and Madhya Pradesh.

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Here it is important to note that the top 5 states in attracting FDI in the year 2022-23 and their percentage in total investments received by India were: Maharashtra 29%, Karnataka 24%, Gujarat 17%, Delhi 13%, and Tamil Nadu 5%. Compared to this rank of UP was eleventh but its percentage share was 0.7%.

This presents an open slate for UP to create a drawing board for jumping into the top 5. We need to conduct benchmarking studies and implement the findings. At the same time, there is a dire need for creating a positive narrative about UP which will lead to a positive branding of the state.

There is a need for brainstorming as to how UP being the fourth largest state and the highest population galvanises its strengths. There is a need to work on the bottlenecks which are creating obstacles for Fortune 500 companies to invest in the state.