

World Betting on India

The coming decade of the growing Indian economy will be

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Paper - III
(Indian Economy)

❖ India can become world's third largest economy by 2030.

A recent report by international investment bank Morgan Stanley titled 'Why this is India's Decade' is being read seriously. It has been said in this report that India is achieving new heights in the world economy. Four global trends Demography, Digitization, Decarbonization and Deglobalization are in favor of New India. In such a situation, there is a huge investment opportunity in India for the investors of the world. Investing here is beneficial in every way. The Prime Minister has already said that investing in India means investing in democracy and for the world.

background

It is no small matter that in the last financial year 2021-22, India received foreign investment of \$ 84 billion at a record level. When there is an environment of economic and financial recession all over the world, there is a big decline in the world economy, yet India is being preferred by foreign investors, then it is because of transparent and stable policy for foreign investment in the country. With this India has a strong political leadership.

India as a market

Indian market is a market with increasing demand. Foreign investment is increasingly moving towards India due to the skilling, outsourcing and purchasing power of the growing middle class, the talented new generation in the country. Global credit rating agency Fitch has upgraded India's rating from negative to stable amid the current global slowdown, making it suitable for foreign investment. Virtually the fundamentals of the Indian domestic market and economy are strong. At present, while India is the fifth largest economy in the world, it is also the country with the fastest digitization.

According to the International Monetary Fund, India's growth rate in the financial year 2022-23 will be around 6.8 percent, which will be the world's highest growth rate. It has foreign exchange reserves of more than \$531 billion. The stock market is maintaining an edge. Record production of food grains is also happening. India's new identity has been created by agricultural development and agricultural exports. In the financial year 2021-22, agricultural exports worth 50 billion dollars have been done from India. The rapid growth of food processed industries in the country has led to increased foreign investment in this sector.

Reforms in India regarding the economic sector

Many historical reforms have also been done to make business and business easier in the country. Over 1,500 outdated laws and thousands of unnecessary compliances have been abolished in the past eight years. GST and bankruptcy laws have been brought. The economy has been strengthened by vigorous reforms in the banking sector. Today the number of operational airports has doubled and metro rail has expanded to over 20 cities. Corporate tax has been reduced. Instead of conducting business itself, the government has prepared the basis for doing business. New opportunities have been created for the youth to enhance their potential. The youth of India have created more than 100 unicorns and started more than 80 thousand new startups in the last eight years. With steps like de-criminalisation of many provisions of the law, online assessment, new avenues for FDI, liberalization of drone regulations, the flow of foreign investment into the country is seen increasing rapidly.

Investors Choice India

India is undoubtedly the best place in the world for investment because the country has the potential to lead the fourth industrial revolution and the government has made necessary reforms to make the country a global manufacturing hub. Along with this, important steps have been taken to promote 3D printing, machine learning, data analytics and IT industry. In the self-reliant India campaign, under manufacturing, 24 sectors are being promoted on priority basis. It is important to note that after India embodied Free Trade Agreements (FTAs) with UAE and Australia, now the EU, UK, Canada, six Gulf Cooperation Council (GCC) countries, South Africa, USA and Israel With this the talks are progressing rapidly. This will also increase the possibilities of foreign investment in India.

What is Foreign Direct Investment?

Foreign Direct Investment (FDI) is an investment made by a firm or individual of one country in business activities located in another country. FDI provides the facility of direct business purchase to an investor in a foreign country. Investors can take advantage of FDI in many ways. Establishment of a subsidiary in another country, acquisition or merger of an existing foreign company or joint venture partnership with a foreign company are some of the common methods. Foreign direct investment has been an important driver of economic growth in India as well as a major non-debt financial resource for the country's economic development. This is different from Foreign Portfolio Investment (FPI) where the foreign entity only buys the stocks and bonds of a company. FPI does not provide the investor with control over the business.

Routes of FDI in India

Automatic Route

Under this route the foreign entity does not require prior approval of the government or RBI (Reserve Bank of India). In India, FDI up to 100% is allowed in non-critical sectors through the automatic route without requiring security clearance from the Ministry of Home Affairs (MHA). Investments in sensitive sectors such as defence, media, telecommunications, satellites, private security agencies, civil aviation and mining, apart from any investment from Pakistan and Bangladesh, require prior approval or security clearance from the Ministry of Home Affairs.

Government route

In this, the foreign entity has to get approval from the government. The Foreign Investment Facilitation Portal (FIFP) facilitates single window clearance of applications through the approval route. It is administered by the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry.

Efforts to Increase Investment

Not only this, the introduction of experimental use of digital rupee by the Reserve Bank and the important decision to settle global business deals in rupees has also created a scenario for further rapid growth of foreign investment in the country. Certainly, the way India's new logistics policy and Gati Shakti Yojana have been launched with unprecedented strategies, foreign investment will

also increase. This will reduce the cost of transportation of goods and will encourage all types of industry and business. The new policy will play a key role in bridging the high logistics gap and making India competitive in the global supply chain. In such a situation, India will be seen receiving more foreign investment by becoming a major economic competitive country in the world.

Schemes of Government of India to promote FDI

- Make in India initiative,
- Self-reliant India campaign,
- National Technical Textiles Mission,
- Production linked incentive scheme,
- Pradhan Mantri Kisan Sampada Yojana, etc.

Some other key points from the Morgan Stanley report

- ➔ The penetration of e-commerce will almost double from 6.5 percent to 12.3 percent by 2031.
- ➔ Internet users in India will increase from 650 million to 960 million while online shoppers will increase from 250 million to 700 million in the next 10 years.
- ➔ India will account for about 25 percent of global car sales during 2021-2030 and is expected to drive 30 per cent of passenger vehicle sales by 2030.
- ➔ India's workforce in the technology sector will more than double from 5.1 million in 2021 to 12.2 million in 2031.
- ➔ Healthcare penetration in India may increase from 30-40 per cent at present to 60-70 per cent; Adding 400 million new entrants to the formal healthcare system.
- ➔ Investment in energy sector is expected to exceed USD 700 billion over the next decade as India accelerates its energy transition.

looking forward

Hope this report by Morgan Stanley will soon come to fruition, which says that this decade will prove to be the decade of the fastest growing Indian economy. And at the same time, India will emerge as the world's third largest economy by 2030 due to its economic compatibility.

Expected Question

Que. Consider the following statements.

1. Foreign Portfolio Investors can invest in India only through the Government route.
2. FDI up to 100% is allowed in non-critical sectors in India through the automatic route

Which of the above statements is/are true?

- (a) only 1 (b) only 2
(c) Both 1 and 2 (d) None of the above

Answer : B

Mains Expected Question & Format

Que.: According to the Morgan Stanley report, there is a huge potential for foreign investment in India, evaluate the efforts being made to attract foreign investment in India? Can India become the world's third largest economy by 2030?

Answer Format :

❖ **Introduction (20-30 words)**

Briefly discuss the Morgan Stanley report and show the future prospects.

❖ **Main Body (140-170 words)**

In this part, discuss in detail the efforts and reforms being made by India to attract foreign investment.

❖ **Conclusion (40-50 words)**

Give your vote in this section whether India can become the third largest economy of the world by 2030 or not

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC main examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.