Indian Economy · GS - III

Justify the need for FDI for the development of the Indian economy. Why there is gap between MOUs signed and actual FDIs? Suggest remedial steps to be taken for increasing actual FDIs in India.

EXAM YEAR	PAPER	SUBJECT
2016	GS - III	Indian Economy

MARKS	WORD LIMIT
12.5	~200 words

Answer Hint

Foreign Direct Investment; capital formation; technology transfer; employment generation; investment commitments; regulatory uncertainty; ease of doing business

Model Answer

Introduction

Foreign Direct Investment (FDI) involves investment by foreign entities in businesses with a lasting interest or significant influence. It can support India's development by supplementing domestic investment and strengthening productive capacity.

Need for FDI

- **Capital formation:** Provides funding for infrastructure, manufacturing and services.
- **Technology transfer:** Introduces advanced technologies, management practices and research capabilities.
- **Employment:** Can generate direct and indirect jobs.
- **Export competitiveness:** Connects Indian firms with global markets and supply chains.
- **Productivity:** Competition and improved production methods can raise efficiency.
- **Infrastructure:** Supports sectors such as logistics, renewable energy and telecommunications, subject to applicable rules.

Why MOUs Exceed Actual FDI

Memoranda of Understanding (MOUs) often record investment intentions rather than binding commitments. The gap arises because of:

- Land acquisition and infrastructure constraints.
- Delays in clearances and regulatory uncertainty.
- Changes in global economic conditions and investor priorities.
- Difficulty obtaining finance or finding suitable local partners.
- Skill shortages, logistics costs and concerns about policy predictability.
- Project announcements made for promotional purposes without immediate implementation.

Remedial Measures

- Establish transparent, time-bound approval processes.
- Improve transport, electricity, industrial parks and logistics.
- Ensure stable, predictable taxation and regulatory policies.
- Facilitate land access while protecting legal rights and environmental safeguards.
- Strengthen contract enforcement and dispute resolution.
- Improve workforce skills and support domestic supplier networks.
- Track announced projects and provide coordinated assistance during implementation.

Conclusion

FDI can strengthen India's growth and technological capabilities, but announcements alone do not create economic value. Converting investment commitments into productive projects requires policy stability, strong infrastructure and effective implementation.

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