Research Article

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Main Factors Helping India Become the "Wind Eagle" to Attract FDI Amid the Trend of Production Shift from China

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Abstract

Since Prime Minister Narendra Modi took office in 2014, India has emerged as one of the world's top destinations for foreign direct investment (FDI). Currently, the impact of the US-China power competition in the Indo-Pacific region is becoming increasingly unpredictable and complex, and multinational investors and companies are tending to shift their production chains out of China, in which India is the country that benefits the most from this process. This study aims to explore and analyze the key factors that have helped India generate strong attraction for foreign investors in the context of the current superpower competition. The article uses a qualitative analysis method through the analysis of secondary data sources, which shows that there are four main factors contributing to India's current success: (1) abundant and cheap young workforce, especially in the information technology sector; (2) large consumer market with a rapidly growing middle class; (3) India has a stable political and macroeconomic environment; (4) economic reforms and infrastructure efforts by the Indian government under Prime Minister Narendra Modi. The research results have significance in identifying India's key competitive advantages that make it an attractive destination for foreign investors; providing practical evidence on the key factors determining India's FDI attraction; and providing useful information about the business environment, market potential and competitive advantages of India in the current context.

Keywords: *India, US-China competition, FDI, policies, reforms*

1. Introduction

Since Prime Minister Narendra Modi took office in 2014 with a series of “shock therapies” to reform the outdated economy, India has now emerged as one of the world’s top destinations for FDI (Nagarjuna, 2022). India’s rapid economic development and the implementation of more investment-friendly economic reform policies have made the country increasingly attractive to foreign investors. The trend of production shifting out of China due to the escalating instability in the US-China competition is assessed as a “boost” that creates great opportunities for India to attract FDI flows, especially from the world’s largest multinational corporations (Narlikar, 2022). According to data from the Indian Ministry of Commerce and Industry, since Prime Minister Narendra Modi took office with a series of economic policy reforms, FDI inflows during the 2014-2023 period have reached $596 billion, doubling the $298 billion recorded in the 2005-2014 period (Ministry of Commerce and Industry, 2023). The strong increase in FDI flows into India is evidence of the “prioritized” status for global businesses and investors. Therefore, the rapid growth of FDI inflows into India has attracted the attention of countries, policy researchers, and businesses around the world.

The success of India in becoming an attractive destination for foreign investors and businesses is considered to be due to the impact of various factors. This article aims to analyze the key factors that have helped India generate strong attraction for foreign investors in the context of the production shift out of China. The article uses a qualitative analysis method through the collection and analysis of reliable secondary data sources, including data from government and non-governmental organizations, as well as studies by economists and scholars related to the topic of India’s success in attracting FDI under Prime Minister Narendra Modi. Through this, the article has identified four key factors contributing to India’s success: (1) abundant and cheap young workforce, especially in the information technology sector; (2) large consumer market with a rapidly growing middle class; (3) India has a stable political and macroeconomic environment; (4) economic reforms and infrastructure efforts by the Indian government under Prime Minister Narendra Modi. The research results will create opportunities for learning and applying the successful model of India for other countries, especially developing countries in Southeast Asia that are benefiting from their geographical proximity to China, helping them enhance their competitiveness and maximize the opportunities from the global supply chain relocation trend. At the same time, the research results will provide valuable experiences for policymakers and businesses in guiding appropriate development strategies and reforms.

2. Literature Review

The existing literature on India’s rise as a leading destination for FDI highlights several key factors contributing to the country’s success. One of the primary aspects discussed in the literature is India’s demographic advantage, particularly its young and abundant workforce (Nagarjuna, 2022; Singh, 2024). The large population of working-age individuals, combined with relatively low labor costs compared to other countries, has made India an attractive destination for multinational corporations seeking to establish manufacturing and service hubs (Ghose, 2016; Estrelado, 2023). Furthermore, the literature emphasizes the rapid growth of India’s middle class as a significant factor in attracting FDI. The expanding middle class, characterized by increasing disposable incomes and shifting consumption patterns, represents a vast and growing consumer market for multinational companies (Krisnan & Hatekar, 2017; Rajora, 2023). This trend has been driven by factors such as economic liberalization, urbanization, and the expansion of the education and services sectors (Bhutia, 2024). Another crucial element discussed in the literature is the relative political and macroeconomic stability under the leadership of Prime Minister Narendra Modi (Chowdhury, 2023). The literature highlights the importance of a stable political environment, characterized by periodic elections and peaceful transitions of power, in providing confidence to foreign investors. Additionally, the literature examines India’s impressive economic performance, including sustained GDP growth, low inflation, and a strengthening position in global rankings, as factors contributing to its attractiveness for FDI (Prasad, 2023; Sanyal, 2023).

The literature also underscores the significant efforts undertaken by the Indian government under Prime Minister Modi to reform the country's business environment and infrastructure. The literature discusses initiatives such as the Make in India program, the Goods and Services Tax (GST) reform, and the National Infrastructure Pipeline (NIP), all of which have aimed to streamline administrative procedures, reduce regulatory barriers, and improve the overall investment climate (Nagarjuna, 2022; Aggawal, 2023). Furthermore, the literature examines the broader geopolitical context, particularly the impact of the US-China competition in the Indo-Pacific region, as a contributing factor to India's rise as an attractive FDI destination. The literature suggests that the trend of production shifting out of China has created opportunities for India to position itself as an alternative manufacturing and investment hub, benefiting from the relocation of multinational companies (Narlikar, 2022; Feitao, 2019). The existing literature provides a comprehensive understanding of the key factors driving India's success in attracting FDI. The literature highlights the interplay of demographic, economic, political, and policy-driven factors, which have collectively contributed to India's emergence as a prime destination for foreign investment. However, the literature also acknowledges the ongoing challenges faced by India, such as high unemployment, income inequality, and infrastructure deficiencies, which require continued efforts to address and sustain the country's attractiveness for foreign investors (D'Costa, 2023; Welle, 2024). Overall, the literature review underscores the multifaceted nature of India's success in attracting FDI, providing a solid foundation for further research and analysis on the subject. The findings from this literature review can inform policymakers and business leaders in other developing countries seeking to emulate India's model and maximize the opportunities presented by the shifting global production landscape.

3. Methodology

This study employs a qualitative research approach to explore and analyze the key factors that have contributed to India's success in attracting FDI. The research utilizes a comprehensive analysis of secondary data sources, carefully selected for their relevance, credibility, and timeliness. The data sources include: (1) government reports and publications, (2) academic research, (3) international organization reports, (4) industry and think tank reports, and (5) statistical databases. Specifically, the research utilizes three main methodological approaches: policy analysis, expert opinion gathering, and statistical analysis.

First, policy analysis. The first methodological approach involves a comprehensive analysis of India's policies and initiatives aimed at creating a favorable environment for foreign investment. This includes an in-depth examination of the Make in India program, the GST reform, and the NIP, among other relevant policies implemented under the leadership of Prime Minister Narendra Modi. The policy analysis entails a thorough review of government publications, policy documents, and official reports from the Ministry of Commerce and Industry, the Reserve Bank of India, and other relevant government agencies. This analysis allows for a deep understanding of the objectives, implementation strategies, and the intended and realized outcomes of these policy interventions. Additionally, the policy analysis considers the broader economic and political context in which these reforms were introduced, as well as their alignment with the country's overall development agenda.

Second, expert opinion gathering. The study employs a secondary data-based approach to gather insights from expert stakeholders, rather than conducting primary interviews. This approach involves the review and analysis of publicly available opinions, commentary, and assessments made by recognized experts, economists, policy researchers, and industry leaders regarding the factors contributing to India's success in attracting FDI. The expert opinion gathering process involved an extensive search and review of online sources, such as policy think tank publications, industry reports, news articles, and academic journals. The researchers identified and compiled relevant expert perspectives and analyses from these publicly available sources. The selection of expert sources was based on the credibility and reputation of the individuals and institutions providing the opinions. The researchers prioritized experts with demonstrated expertise in areas such as Indian economic policies, foreign investment trends, and global trade dynamics. This included economists, policy analysts, and industry leaders from both domestic and international backgrounds.

Third, statistical analysis. The third methodological approach employed in this study is the statistical analysis of relevant data sources. This involves the collection and examination of quantitative data from government agencies, international organizations, and reputable research institutions. The statistical analysis focuses on key indicators such as FDI inflows, GDP growth rates, inflation rates, ease of doing business rankings, and labor force participation, among others. These data points are analyzed to identify trends, patterns, and correlations that can provide further insights into the factors driving India's success in attracting FDI. The statistical analysis also incorporates a comparative element, where relevant data is compared across different time periods, as well as with other countries, to contextualize India's performance and identify its competitive advantages. This comparative analysis helps to highlight the unique aspects of India's FDI attraction strategies and their effectiveness relative to global benchmarks.

By combining policy analysis, expert opinion gathering, and statistical analysis, this study aims to present a comprehensive and multifaceted understanding of the key factors contributing to India's success in attracting FDI. The integration of these methodological approaches allows for a robust and well-rounded examination of the topic. The application of these three methodological approaches is expected to provide a detailed and evidence-based assessment of India's FDI landscape, offering valuable insights for policymakers, investors, and researchers interested in understanding the dynamics and drivers of India's emergence as a global FDI destination.

4. Results

4.1 Abundant and cheap young workforce, especially in the information technology sector

India's large youth population is often seen as a demographic advantage in achieving the goal of becoming the "world's largest manufacturing hub by 2030" along with its neighbor - China. Through this, India benefits from a young, abundant workforce of nearly 560 million people, accounting for nearly 40% of the working-age population (15-29 years old), and this workforce plays a very important role in supporting the production and service activities of foreign companies (Singh, 2024). According to the International Labour Organization (2024), India's workforce is expected to grow by more than 8 million people per year over the next 10 years, most of which will be driven by young people entering the labor. Thus, India has a large young workforce that is very suitable for foreign companies, especially in the manufacturing and labor-intensive sectors.

However, despite the abundant youth workforce in India, as of 2022-2023, only 42.1% of Indian youth participate in the labor force, of which the rate is 61.6% for young men and only 19.7% for young women (Singh, 2024). Comparing the youth labor force participation rate with the share of youth population in the working-age population shows that India is facing a severe shortage of employment. According to a study by scholar Anthony P.D'Costa (2023), *"India's labor market currently faces a shortage of good jobs, with hundreds of millions of people working in the informal, low-wage, insecure and precarious sectors such as agriculture. About 52% of workers are self-employed, forced to create their own jobs to earn an income. Temporary jobs account for 25% of the workforce, while only 23% are regular wage employees. The labor force participation rate is 50%, meaning only half of the working-age population (15-64 years old) is employed, and the female participation rate is even lower at 23% compared to 67% for men"*. Therefore, the severe lack of employment has led to fierce competition over labor costs. Indian workers today are *"struggling to find enough working hours, working hard with poor wages and working conditions, and suffering the humiliation of social status"* (Ghose, 2016, p. 65). Currently, the average wage of Indian workers is only a minimum of $2.36 per day and the average wage in 2020 was only $259 per month (Chadha, 2023). India is one of the countries with the lowest average wages in the world. Therefore, foreign investors and companies are very pleased to invest in India as they only need to pay very low labor costs in this country. However, not all Indian workers are paid low wages, depending on the occupation and other factors, Indian workers can earn up to $47.16 per month for skilled workers and up to $1,894 per month for experts in a particular field (Estrelado, 2023). Even the highly skilled employees, especially in technology-related roles, can earn much higher salaries, many times higher than low-skilled workers and ordinary manufacturing jobs (see Table 1).

Table 1: Some common jobs and their average salaries in India today

No	Job title	Average salary per month (USD)
1	Software Engineer	7,877.76
2	Software Developer	6,890.60
3	Project Manager	17,167.52
4	Data Entry Operator	2,489.50
5	Graphic Designer	3,985.69
6	Call Center Agent	2,400.37
7	HR Manager	9,271.67
8	SAP Consultant	8,987.43
9	Team Leader	10,134.62

Source: Salary Data & Career Research Center (India)

However, although the quality of the young workforce has improved over the years, the competition for jobs and the lack of suitable job opportunities have led to India having nearly 83% of its workforce unemployed in 2022, with the proportion of young people with at least a secondary education level among all unemployed youth doubling from 35.2% in 2000 to 65.7% in 2022 (Welle, 2024). Furthermore, Figure 1 shows that the proportion of young workers without jobs due to lack of education and qualifications stood at 28.5% of the total workforce in 2022. This figure has not seen a significant decrease from the 30% recorded in 2000. The unemployment rate among women due to lack of education and qualifications was 48.4% in 2022, down 4.3% from 52.7% in 2000, but this decline is not substantial and reflects the serious constraints that the female workforce still faces in Indian society. This stems from the issue of gender bias in Indian society, where Indian women often face many barriers to participating in the workforce, the persistent caste-based social system, and the lack of training opportunities for women, who also have to bear the burden of many household responsibilities. Thus, gender inequality and the entrenched social stratification have limited their employment opportunities. Therefore, India is facing a severe shortage of jobs, and attracting FDI is one of the options prioritized by the Indian government under Prime Minister Narendra Modi to create more jobs for domestic workers. As a result, the Indian government has implemented many policies to attract FDI, and investors and businesses are very willing to participate in the Indian market.

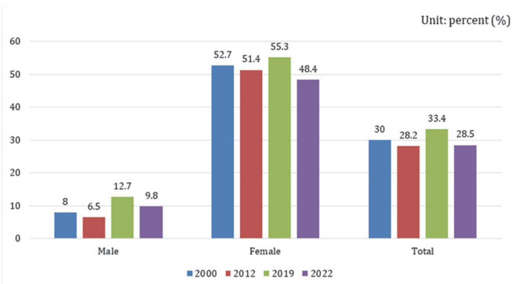

Figure 1: Youth not in employment, education or training, by gender, 2000, 2012, 2019 and 2022
Source: International Labour Organization

In addition, the quality of the young workforce in India is currently very low, with up to 75% of young workers unable to send emails with attachments, 60% unable to copy and paste files, and 90% unable to enter math formulas into a spreadsheet (Estrelado, 2023). The unemployment rate for this young workforce segment has not shown any signs of stabilizing throughout the 2000-2022 period, and has even increased as nearly 8 million young workers enter the labor market each year. Scholar Ajit Ghose (2016) estimated that *"India needs to create around 12 million jobs per year just to keep up with the influx of new entrants into the labor market"*. Therefore, in addition to the demographic advantage of a large young workforce, India is facing and struggling with the problem of widespread unemployment, which puts pressure on the government's social spending budget. The lack of job opportunities has led to fierce competition over low labor costs, allowing foreign companies to greatly benefit by paying low wages to workers in India. Therefore, low labor costs have become an important factor helping foreign companies invest FDI in India, in addition to the advantage of a large young workforce.

Additionally, another competitive advantage of India is the abundant high-quality human resources in the information technology sector with lower costs compared to other countries. Entering the 21st century, India is considered one of the world's leading software technology centers with a large, experienced and capable young workforce in the information technology field. India's IT industry had over 5.4 million employees as of 2023, contributing 7.5% to India's GDP in 2023 and expected to surpass $250 billion in revenue by 2024 (Statista, 2023). India's success in becoming a global technology hub is the result of decades of investment and reform in its higher education system. Currently, India has around 1,200 universities and 44,000 colleges, many of which have gained international recognition for producing high-quality human resources in the IT field (Ministry of India, 2023). Leading IT-focused universities such as the Indian Institutes of Technology (IITs), Indian Institutes of Management (IIMs), and the Indian Institute of Science (IISc) have provided a large pool of high-quality human resources to domestic and international technology companies over the years. Many of the world's top technology companies have heavily invested in establishing software development centers and IT service hubs in India to take advantage of the skilled workforce and low costs, such as Microsoft, Adobe, and Foxconn. The rapid development of India's software industry and IT services has contributed to creating *"the image of a country ready to embrace foreign investment in high-tech sectors"* (Sankas, 2023). Thus, the abundant high-quality human resources in the IT sector, the presence of leading technology companies globally, and the government's reform and investment efforts have helped India become one of the top destinations for FDI in this field.

4.2 Large consumer market with a rapidly growing middle class

India is the world's largest democracy with a population of over 1.4 billion, and therefore it also owns the world's largest consumer market, surpassing China in 2023 in terms of population size. However, more importantly, the rapid development of the middle class in India has created an ever-increasing demand for the products and services of multinational companies. In India, the middle class is typically characterized by having a stable source of income, often from professional or administrative jobs, a certain level of education, and the ability to afford a comfortable but not necessarily luxurious lifestyle (Krisnan, 2017). The middle class in India has four main characteristics: (1) Living in semi-urban or urban areas; (2) Having access to education and healthcare; (3) Engaged in salaried jobs, small businesses or professions; (4) Aspiring for socioeconomic advancement. According to a study by the People Research on India's Consumer Economy (PRICE), India currently has about 432 million middle-class people in 2021, accounting for about 31% of the total population. This number is expected to increase to 715 million by 2030 and 1.02 billion by 2047 out of a total projected population of 1.66 billion (Rajora, 2023). The growth of the middle class in India is driven by various factors, of which three main factors are: (1) The economic liberalization policies of the 1990s played a crucial role in expanding the middle class. FDI inflows, the emergence of new industries, and overall economic growth have brought numerous job opportunities, helping many families enter the middle class; (2) The increasing emphasis on education, especially higher education, has helped many people secure high-paying jobs in sectors like information technology, finance, and services. Furthermore, rapid urbanization and the accompanying development of cities have also fueled the growth of the middle class; and (3) India's demographic advantage, namely its large young population, also plays an important role in the expansion of the middle class. With a large population participating in the labor force and earning stable incomes, the size and influence of the middle class have grown rapidly.

The middle class in India plays a crucial role in driving domestic consumption, with their rising incomes and aspirational lifestyles, they represent a significant consumer base that drives demand for various goods and services. Their consumption patterns influence market trends, and their investment decisions impact the financial market. According to the PRICE (2023) research, the spending of middle-class households is 8 times that of poor households, while the spending of wealthy households is nearly 25 times that of poor households, accounting for 55% of the incremental consumption growth. Middle-class and wealthy households will drive an increase in consumer spending of nearly $2.7 trillion by 2030. Currently, the consumption preferences of India's middle class are shifting towards modernization as the demand for a higher quality of life increases. Consumer products and services such as smartphones, electronics, fashion, travel, education, healthcare, and real estate are becoming more prevalent among the middle class in India. Ayyappan Rajagopal, the director of the travel company Cleartrip, commented on how the middle class in India has helped drive travel demand after the COVID-19 pandemic, saying: *"The increasing spending power of the middle class and wealthy households, combined with accessible and affordable travel, is poised to have a significant impact on the growth of the global tourism industry"* (Bhutia, 2024). On the other hand, the Reserve Bank of India (2024) has noted that *"the Indian economy is on a continuous upward trajectory, and the middle-class segment is rapidly expanding"*. Furthermore, Vishal Patel, the director of the real estate company Om Sree, has commented on the significant change in the real estate demand of the middle class in India: *"We are seeing an increasing interest in luxury properties, especially in Mumbai, Delhi, Bangalore, and Chennai. The middle class, who have traditionally focused on affordability, are now seeking premium living spaces with exclusive features"* (The Economic Times in India, 2023). Through this, the rising incomes and rapid development of the middle class in India are attracting multinational companies to invest FDI to access India's massive consumer market.

4.3 Relatively stable political and macroeconomic environment

For foreign companies, the political and macroeconomic stability of a country plays an important role in their investment decision-making. Foreign companies tend to look for a stable political and economic environment to ensure the long-term safety of their business operations. The current relocation of production chains out of China has demonstrated this phenomenon, where the US-China competition has impacted the production and business activities of multinational companies from the US and its Western allies like South Korea, Japan, and Taiwan. As the US-China competition has escalated, US protectionist trade policies have created a trend of production chain relocation out of the "world's factory". This has forced foreign companies to adjust their business strategies and seek alternative markets to set up their production facilities under pressure from the US government and its Western allies. In this context, India has proven its strong political and macroeconomic stability, becoming one of the attractive destinations for US and Western companies that are struggling to find new production bases to replace China.

Domestically, India is the world's largest democracy with a stable multi-party decentralized system. The country has organized free and fair periodic elections over the past three decades, with peaceful transfer of power between different political parties. This ensures a stable and predictable political environment, building confidence among foreign investors about low political risks and continuity in investment policies. As the Indian Finance Minister Nirmala Sitharaman stated, *"Political stability and policy consistency will pave the way for India to become the world's third-largest economy at a time of heightened geopolitical instability and risks to economic growth"* (Centre for

Indian Studies, 2023). Reinforcing this argument, at the Vibrant Gujarat Global Summit on 10/1/2024, Prime Minister Narendra Modi emphasized that India is a *"powerhouse for talented youth, a technology hub to find solutions, and a democracy that delivers"* (Vibrant Gujarat, 2024). This indicates the Indian government's strong confidence in the country's political stability despite the regional and global geopolitical tensions. Currently, the Indian government under Prime Minister Narendra Modi is considered the most successful tenure in India's history since the economic reforms began in 1991, *"with many foreign companies now in a wait-and-watch mode before making investment decisions in India, waiting for Prime Minister Narendra Modi to be re-elected in 2024"* (Minh, 2024). Foreign companies always desire political stability, and Prime Minister Narendra Modi is seen as one of the most powerful leaders in India's history. Prime Minister Narendra Modi has defeated the main opposition party in three major elections in December 2023 and is almost certain to be re-elected in the 2024 election. Many foreign companies have high expectations for Prime Minister Narendra Modi, as they consider him *"a very business-friendly leader"* (Chowdhury, 2023). However, Prime Minister Narendra Modi also pursues an interventionist approach and sometimes creates business risks. For example, in August 2023, the Indian government suddenly announced restrictions on laptop imports to promote domestic manufacturing of this product. This measure caused chaos for companies dependent on imported laptops, and the sudden ban was later withdrawn. Previously in July 2023, the Indian government abruptly imposed a 28% retroactive tax on online gambling companies, causing this $1.5 billion industry to collapse overnight (Aljazeera, 2023). But overall, the Indian government under Prime Minister Narendra Modi is assessed as the most successful and business-friendly; it is an important "bright spot" attracting FDI to India.

In terms of international politics, India is the dominant power in the South Asian and Indian Ocean regions, and has the potential to become a superpower on par with the US in the future. India's strategic geographical location straddling the vital maritime trade routes in the Indian Ocean has given it a crucial position in the global supply chain and the world political map. India's biggest security concern now is China, as New Delhi has national interest conflicts with Beijing in the border region. Although a peace-seeking country, India has a close geographical proximity and vital interests in the Indo-Pacific region, where the Indian Ocean lies within India's traditional sphere of influence (Kiet, 2023). China's expanding influence in the Indian Ocean and South Asia since the late 1990s has prompted India to establish an important position in the regional security architecture (Feitao, 2019), forcing India to adjust its strategy to maintain influence and ensure its security interests. However, *"the mutual economic interdependence, as well as the desire to establish a multipolar order, have made India and China inseparable"* (Kiet, 2023). Therefore, India's foreign policy under Prime Minister Narendra Modi in the Indo-Pacific region has shifted its strategic alignment from neutrality to alliance with the US, Japan, and Australia through the Quadrilateral Security Dialogue (QUAD). However, India's engagement in QUAD differs from the other three major powers in the group. In his 2018 speech at the Shangri-La Dialogue in Singapore, Prime Minister Narendra Modi emphasized the importance of the Indo-Pacific region as a comprehensive one. Specifically, *"India does not see the Indo-Pacific region as a strategy or as a club of limited members. Nor as a grouping that seeks to dominate. And certainly not as directed against any country. Such a geographical definition is not possible"* (Ministry of External Affairs, Government of India, 2018). This means that from India's perspective, the Indo-Pacific region includes China as well. Thus, the Indian government has made efforts to reassure China in bilateral and multilateral diplomacy such as the BRICS cooperation (Brazil, Russia, India, China and South Africa); participation in the China-initiated Asian Infrastructure Investment Bank (AIIB); and to some extent, New Delhi's cautious engagement in QUAD. Therefore, India's membership in QUAD is primarily to seek balance and contain China's growing influence in the Indian Ocean. As a result, the India-China relationship is managed in a stable state, always restraining each other, and aiming to resolve conflicts peacefully. Overall, in terms of international politics, India will not be significantly affected by the impact of the US-China competition, and India's international politics will tend to be stable and peaceful in the near future as the major powers do not want to engage in a zero-sum game.

In terms of macroeconomics, since coming to power in 2014, the government of Prime Minister Narendra Modi has maintained a stable economic growth rate of around 6% per year (except for 2020 with a negative growth of -7.3% due to the COVID-19 pandemic impact) and kept inflation under control, at the lowest average of 3.43% in 2018 and the highest at 6.66% in 2022 (see Figure 2). Currently, many of the world's leading economies are struggling with high inflation, economic recession due to the impact of the Russia-Ukraine war, as well as the escalating US-China competition. In this context, India has affirmed its position as a global manufacturing hub and became the world's economic bright spot in 2023. With an impressive GDP growth rate of 7.2% in 2023, India has become the fastest growing major economy in the world for two consecutive years. India's economy now stands at $3.75 trillion, ranking fifth in the world after overtaking the UK in 2022 - a former colonial power that ruled the country for over 300 years. India's impressive macroeconomic performance is partly due to the strong recovery of the manufacturing sector. The Manufacturing Purchasing Managers' Index (PMI) rose to 56 points in November 2023, significantly higher than the average 50 points, marking the 29th consecutive month of manufacturing growth (Prasad, 2023). New order, production, and export indicators also recorded impressive growth.

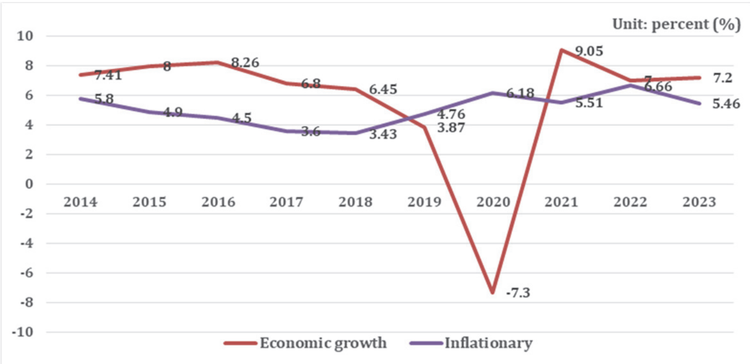

Figure 2: Economic growth rate and inflation rate in India in the period 2014 – 2023
Source: Ministry of Commerce and Industry (India)

In addition to manufacturing, India's stock market has also been a bright spot in the economy in 2023. The Nifty 50 index has reached a new all-time high with a 16% increase since the beginning of 2023; India's stock market is now the seventh largest in the world by market capitalization, larger than the Hong Kong market which has declined 18% in 2023 (Sanyal, 2023). Additionally, India has climbed to 38th position in the Logistics Performance Index in 2023; particularly, it has risen to 40th place in the Global Innovation Index in 2023, a leap of 41 places in eight years under the tenure of Prime Minister Narendra Modi (Invest India, 2024). India ranks number one in the Central and South Asia region, and also number one among the group of lower-middle-income economies. Looking ahead, economist Truong Dang (2023) believes that India is entering the prime phase of the S-curve growth pattern, characterized by significant increases in urbanization, industrialization, household incomes, and energy consumption. This phase typically lasts for a few decades and brings long-term economic development opportunities. According to the analysis and forecast of economist Mahesh Nandurkar, India's GDP could reach $5 trillion by 2027, surpassing Germany and Japan to become the world's third-largest economy, driven by its young population and financial sector development (Jefferies, 2024). Furthermore, India also benefits from a diverse economy, with the services, industry, and agriculture sectors all playing important roles in the country's economic structure. This helps mitigate risks and strengthen the economy's resilience to external "shocks". The diversity in the economic structure also attracts investors in various fields, contributing to the flow of FDI into India.

These achievements in India's economic development have inspired confidence among foreign investors about the sustainability and long-term prospects of the Indian market, as they struggle to find new production bases to replace China. Although India still faces some challenges, including high unemployment, wide income inequality, poor infrastructure in some regions, corruption, and a complex legal environment, the overall political and macroeconomic stability has played a crucial role in attracting FDI to India at present.

4.4 Prime Minister Narendra Modi's efforts on economic reforms and infrastructure

Since Prime Minister Narendra Modi took office in 2014, the Indian government has made efforts to reform the economy and infrastructure in order to create a more favorable business environment for foreign investors, contributing to India's success in attracting FDI currently. These reforms by Prime Minister Narendra Modi focus on three main pillars: (1) institutional and business environment reforms, simplifying administrative procedures, and relaxing investment regulations in many sectors; (2) tax reforms; and (3) infrastructure improvements.

In terms of institutional and business environment reforms, since coming to power in 2014, the Indian government under Prime Minister Narendra Modi has promoted the Make in India program and upgraded it to Make in India 2.0 in 2020 to develop industrial parks and logistics services to support operations, encourage companies to develop, manufacture and assemble products made in India. The policy approach is to create a favorable environment for investment, develop modern and efficient infrastructure, and open up new sectors for FDI. This initiative focuses on 27 economic sectors to create jobs and improve skills, with the aim of *"turning India into a global manufacturing and design export hub"* (Narlikar, 2022). The Make in India 2.0 program has three main objectives: (1) to increase the growth rate of the manufacturing sector to 12-14% per year; (2) to create an additional 100 million manufacturing jobs in the economy by 2025; and (3) to ensure that the manufacturing sector's contribution to GDP increases to 25% by 2025 (adjusted). By 2023, the Make in India 2.0 program has achieved some key achievements related to attracting FDI: (1) rules and policies have been simplified, with more than 3,600 criminal acts decriminalized and more than 41,000 acts reduced to promote ease of doing business. Nowadays, setting up a company in India has become much easier, equivalent to a reduction in bureaucracy and corruption; (2) FDI inflows into the manufacturing sectors during 2014-2023 reached $149 billion, a 55% increase compared to $96 billion during 2005-2014 (Ministry of Commerce and Industry, 2023); (3) India has risen from rank 142 (2014) to 63 out of 190 countries in the World Bank's latest Ease of Doing Business Index (2023); (4) India has emerged as the world's second-largest mobile phone manufacturer with production exceeding 2 billion units during 2014-2022 (Counterpoint, 2023); (5) By 2023, India has over 100 "unicorn" companies (start-ups with a valuation of $1 billion or more); vi) Large multinational corporations like Samsung, Apple, Ford Motors, Mercedes-Benz, Suzuki Motors, etc. have set up manufacturing facilities in India.

In addition to the Make in India 2.0 program, Prime Minister Narendra Modi also launched the India Startup Initiative on January 16, 2016 to develop it as a launch pad for domestic innovation. Several programs have been implemented over the years under the India Startup Initiative to support entrepreneurs, build a strong startup ecosystem, and turn India into a *"nation of job creators rather than job seekers"* (Leena, 2020). By 2023, India has over 1.14 million startups established across 36 states and union territories, creating more than 1.2 million new jobs (Dayal, 2023). On May 12, 2020, Prime Minister Narendra Modi launched the Atmanirbhar Bharat Abhiyaan (Self-Reliant India) campaign, announcing a special and comprehensive economic package worth $265 billion - equivalent to 10% of India's GDP in the 2019-2020 fiscal year (Invest India, 2020). The goal is to help the country and people become self-reliant in all aspects; strengthening domestic capacity to reduce damage from the COVID-19 pandemic. Prime Minister Narendra Modi emphasized: *"The COVID-19 pandemic and the economic crisis following it have shown us the importance of domestic manufacturing, local markets, and domestic supply chains. All our needs in the crisis were met by domestic businesses. To protect ourselves and be proactive, as well as to fulfill the dream of building*

India in the 21st century, the way forward for us is to ensure that the country becomes self-reliant" (Invest India, 2020). The Indian government has implemented some bold reforms such as reforming the agricultural supply chain, a rational tax system, transparent laws, capable human resources, and a strong financial system. Through this, the Indian government encourages production linkages in 14 key sectors to increase production and export capacity through the Production-Linked Incentive (PLI) program; develop the Open Network for Digital Commerce (ONDC) with over 230,000 sellers and service providers operating in more than 500 cities; implement the National Single Window System (NSWS) to simplify approval processes for businesses; promote the One District One Product (ODOP) program and establish Ekta/Unity Malls to promote and sell ODOP products, etc. (Ministry of Commerce and Industry, 2023). With the comprehensive combination of Prime Minister Narendra Modi's strong economic reform strategies, the Indian economy has undergone a holistic transformation, with the institutional and business environment significantly improved, facilitating both domestic and foreign companies.

In terms of tax reforms, one of the most important reforms of Prime Minister Narendra Modi was the introduction of the GST in 2017. The GST has unified the fragmented tax system between states, helping to reduce transaction costs and facilitate trade activities between states. The GST has also contributed to simplifying the tax system and increasing budget revenue (Sridharan, 2018). In addition, the Indian government has also issued a new corporate income tax law with more competitive tax rates to attract FDI. This includes: 1) the PLI program providing incentives from 4-20% on incremental sales turnover for 5-9 years for various industries such as pharmaceuticals, medical devices, electronics, automotive, telecommunications, textiles, specialty steel, batteries, and food processing; (2) incentives for electronics manufacturing with grants up to 25% of capital expenditure for component and semiconductor manufacturing. The Electronics Manufacturing Clusters scheme provides financial support up to 75% of project costs; (3) SEZ incentives including customs duty exemption, profit tax exemption on export earnings, and capital gains tax exemption; (4) 100% income tax exemption for 3 years in the first 10 years for startups, and capital gains tax exemption if invested in investment funds; (5) 100% first-year capital expenditure deduction for specific projects like cold chains, warehouses, hotels, hospitals, and affordable housing; (6) a 22% concessional corporate income tax rate for domestic companies, and 15% for new manufacturing companies; (7) state-level tax incentives based on location, industry, investment, and employment such as capital subsidies, tax exemptions, and GST refunds for foreign companies; and (8) India also has a duty deferment program for imported goods used in manufacturing and exports.

In terms of infrastructure, India has launched a large-scale NIP initiative to build world-class infrastructure across the country. This important NIP initiative will help India attract investment in the infrastructure sector, which is essential to achieve the goal of becoming a $5 trillion economy by 2025. Within the NIP framework, nearly 7,000 large projects from various sectors with individual project costs over $1.2 million and a total value of around $1.4 trillion have been identified (Invest India, 2024). Key sectors such as energy, road transport, urban development, and railways account for up to 71% of India's total planned infrastructure investment (Aggawal, 2023). This demonstrates the importance the Indian government places on developing critical infrastructure in these areas. In addition, the government has also allocated $73.2 billion to the National Investment and Infrastructure Fund (NIIF). This move aims to attract additional debt and equity capital from both domestic and foreign sources to invest in national infrastructure projects. *"The construction industry alone in India has received around $25.7 billion in FDI during the 2000-2020 period. This industry is growing rapidly, not only in housing development, roads, bridges, infrastructure, healthcare, and education, but also in the number of people it has employed. Due to this expansion and growth, India is expected to become the world's third-largest construction market by 2025"* (Mahindra Construction Equipment, 2022). The mobilization of diverse resources through the NIIF will play an important role in providing financial support for the large-scale NIP projects. In addition, the Indian government has also established the Industrial Land Bank (IILB) on a GIS platform, serving as a comprehensive information hub on industrial infrastructure across the country. This bank includes detailed data on about 4,000 industrial parks spanning 5.5 million hectares of land (Invest India, 2022). The transparency and access to information on industrial parks provided by IILB will help attract both domestic and foreign investors. These large-scale infrastructure initiatives and investments by India are seen as important efforts to build and upgrade infrastructure to international standards. Improving the investment environment and strengthening transportation, energy, and urban infrastructure will make India a more attractive destination for foreign investors. By modernizing its infrastructure, India is truly preparing for the upcoming new waves of FDI in the near future.

5. Conclusion

In the context of the trend of production chains shifting out of China due to the impact of the US-China competition in the region, foreign companies belonging to the US and its Western allies have had to seek alternative production bases and markets to replace China, and India has risen to become the "wind end" leading the attraction of a large amount of FDI inflows in this context. The success of India is the result of the systematic combination of various objective and subjective factors, including 04 main factors: (1) India has a large young labor force with lower labor costs compared to other countries. At the same time, India is a world-leading technology hub with a large, high-quality workforce in the information technology field; (2) India has the world's largest consumer market with a rapidly growing middle class. The middle class in India is growing rapidly and becoming increasingly wealthy with increasing demand for services and products for their lives; (3) India under Prime Minister Narendra Modi is assessed as having the most stable political and macroeconomic environment since the economic reforms in 1990. The strong and stable supreme power position of Prime Minister Narendra Modi (expected to be successfully re-elected in the next term in 2024) and the economic development achievements, especially in 2023, demonstrate the stability, sustainability, and future prospects of the country's economy; (4) The Indian government under Prime Minister Narendra Modi has made extensive efforts to reform the economic institutions, business environment, and invest heavily in infrastructure. India has focused on simplifying administrative procedures, reducing complex bureaucratic regulations and requirements in doing business; relaxing investment regulations in many sectors, creating more favorable conditions for foreign investors; enhancing transparency and accountability of government agencies to build trust for investors. On the other hand, India has made breakthrough tax reforms, especially the introduction of GST in 2017, which has contributed to simplifying the tax system and increasing budget revenues. In addition, India has made strong investments in developing critical infrastructure such as transportation, energy, and telecommunications; focused on building industrial parks and special economic zones to attract foreign investors; and improved the quality and connectivity of the infrastructure system, helping to reduce logistics costs for domestic and foreign businesses.

This study contributes to the existing literature on India's FDI attraction and economic development in several important ways: (1) it provides an up-to-date analysis of the key factors driving India's success in attracting FDI, particularly in the context of global supply chain shifts away from China. While previous research has examined India's FDI policies and economic reforms, this study offers a timely perspective on how India has positioned itself as an attractive alternative destination amid changing geopolitical dynamics; (2) the research highlights the interplay between India's demographic advantages, growing consumer market, political stability, and policy reforms in creating a conducive environment for foreign investment. By examining these factors holistically, the study provides a more comprehensive understanding of India's competitiveness as an FDI destination compared to analyses focusing on individual aspects; (3) the findings underscore the critical role of Prime Minister Modi's economic reforms and infrastructure initiatives in enhancing India's appeal to foreign investors. The detailed examination of programs like Make in India, GST implementation, and the National Infrastructure Pipeline offers valuable insights into the specific policy measures that have bolstered India's investment climate; (4) by situating India's FDI success within the broader context of global economic shifts and competition with China, the research offers a geopolitical perspective that is often overlooked in purely economic analyses of FDI trends. This approach provides a more holistic view of the factors influencing investment decisions in the current global landscape; and (5) the study's findings have implications beyond India, offering valuable lessons for other developing countries seeking to enhance their competitiveness in attracting FDI. By identifying the key elements of India's success, the research provides a framework that policymakers in other nations can adapt to their own contexts.

From India's experiences, to become an attractive destination for FDI, countries need to have a long-term strategic orientation to build a solid political and economic foundation. At the same time, they must proactively reform institutions, policies, and upgrade infrastructure to create a friendly, transparent, and competitive business environment to attract both domestic and foreign investors. Developing high-quality human resources and enhancing national capacity are important foundations to achieve breakthroughs in attracting current FDI. In the context of the trend of production chain relocation out of China opening up great opportunities, countries need to quickly identify and learn from India's successful model. Intensifying investment environment reforms and enhancing national competitiveness will be the key factors to seize the new wave of investment, maximizing the opportunities from the global supply chain relocation trend. Therefore, the success of India is a model for developing countries to learn from experiences, especially developing countries in Southeast Asia with geographical advantages in this trend.

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