

FDI in India

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FDI in India: A Story of Rising Inflows and Falling Returns

Context:

The **RBI Annual Report 2024-25** presents a puzzling picture of Foreign Direct Investment (FDI) in India. While **gross FDI inflows rose by 13.7%**, **net inflows declined drastically** due to increased repatriations and disinvestments. India's **net FDI plunged to just \$0.4 billion** in 2024-25, compared to **\$44 billion in 2020-21**, raising concerns over the **quality and stability** of foreign investments.

What is FDI and Why is it Important?

- **Definition:** Foreign Direct Investment (FDI) refers to capital investments made by foreign entities in Indian enterprises, typically through equity or joint ventures.

FDI's Role in the Indian Economy:

- **Capital Infusion** for infrastructure, startups, and industrial expansion.
 - **Technology Transfer** with advanced know-how, R&D, and managerial practices.
 - **Employment Generation** through both direct and indirect jobs.
 - **BoP Support:** Helps reduce **current account deficits** and boost **foreign exchange reserves**.
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Recent Trends in FDI (As per RBI 2024-25)

- **Gross FDI Inflows increased by 13.7%** in 2024-25.
 - Yet, **average annual FDI growth was only 0.3%** over the last four years.
 - **Repatriation and disinvestments** surged, leading to **net FDI dropping to \$29.6 billion**.
 - India's **net FDI stood at just \$0.4 billion**, a sharp fall from **\$44 billion in 2020-21**.
 - Major inflows came from **Singapore (15%)** and **Mauritius (~10%)**, indicating **financial flows over productive investment**.
 - The **manufacturing sector's share in FDI fell to 12%**, showing declining foreign interest.
 - **Outward FDI from India rose to \$29.2 billion**, nearly **three times higher** than five years ago.
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Key Issues in India's FDI Scenario

- **Disinvestments now account for 63.5%** of gross FDI, compared to **less than 1% in the early 2000s**.
 - Rise in **private equity and venture capital inflows**—focused on short-term profits.
 - Withdrawal from **productive sectors** such as manufacturing and IT services.
 - Decline in investments from **technologically advanced countries** like the US, UK, and Germany.
 - **UNCTAD estimates are 60% lower** than RBI figures, suggesting **possible overestimation** in official data.
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Way Forward: Policy Reforms for Sustainable FDI

- **Ensure policy stability** and transparency to attract long-term investors.
- Promote **quality FDI** in sectors like **manufacturing, green energy, and R&D**.

- Accelerate **land, labour, and business reforms** to align with investor expectations.
 - **Reform tax treaties** to prevent round-tripping via tax havens.
 - Build a system to **track the real economic impact** of FDI at sectoral levels.
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Conclusion

While headline FDI inflows appear promising, India faces a **deep structural challenge**. The sharp decline in **net FDI**, high disinvestments, and dominance of **short-term financial flows** threaten long-term economic resilience. It is critical for India to **shift focus from quantity to quality** in FDI to sustain its growth and development objectives.



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