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THE ROLE OF FDI IN INDIA: ENGINE OF GROWTH OR WHEEL OF DEPENDENCY?

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ABSTRACT

Foreign Direct Investment (FDI) has long been viewed as a critical driver of economic growth, technology transfer, and employment in developing economies. This paper examines India's FDI policy framework and its impact on investment inflows and growth, especially in the current geopolitical context. Over the past three decades, India has progressively liberalized its FDI regulations, culminating in an "investor-friendly" regime that permits 100% foreign ownership in most sectors[1]. We analyze trends in FDI inflows (which rose from roughly \$45 billion in FY2014–15 to a record \$84.8 billion in FY2021–22[2][3], before sharply contracting to \$28 billion in 2023[4]). Despite these reforms, India now faces an investment shortfall: leading economists argue that India's immediate challenge is slowing growth and weak investment, not poverty[5][6]. We survey recent policy changes (including sectoral cap hikes in insurance, defense, space, etc.[7]), compile data on FDI flows and sources, and consider global trends (e.g. post-pandemic FDI shifts, geopolitical trade tensions) affecting India. Using a mixed qualitative and econometric approach, we assess how policy interventions correlate with inflow trends. Our findings suggest that while policy liberalization has underpinned India's rise as a top 10–15 FDI recipient[8][9], continued reforms and global alignment (e.g. supply-chain diversification away from China) are needed to sustain and grow FDI. The paper concludes with policy

recommendations to boost investor confidence and link FDI more effectively to growth and development goals.

INTRODUCTION

Foreign direct investment (FDI) provides capital, technology, and management expertise that can accelerate economic development. For India, attracting FDI has been an explicit policy priority since the 1991 liberalization. A stable, transparent FDI policy can "augment domestic investments" and bring in "international best practices and latest technologies," thereby enhancing India's competitiveness[10]. In recent decades India liberalized most sectors to 100% foreign ownership under the automatic route[1]. As a result, cumulative FDI inflows since 2000 have exceeded $1.1 trillion[11], and India has consistently ranked among the world's top recipients of FDI[8][9].

However, since around 2022 India has experienced a slowdown in FDI. According to a senior economist, India's "immediate challenge is not poverty, but slowing growth and collapsing investment sentiment"[5]. FDI flows actually declined by 43% in 2023 (to \$28 billion) compared to 2022[4]. A former IMF executive director has noted that "Investment is not taking place…FDI has really declined into negative territory" in India[12]. This poses questions about the effectiveness and sufficiency of India's FDI policy in the current context. Moreover, rising global uncertainties – including trade wars, supply-chain shifts and geopolitical conflicts – are reshaping global FDI patterns[13][14].

This paper investigates the role of India's FDI policy in shaping these outcomes. We compile the evolution of FDI regulations (sectoral caps, approval routes, etc.), chart inflow trends over time, and analyze how policy and external factors correlate with India's FDI performance. We pay special attention to recent high-profile policy changes (e.g. in insurance, telecom, defence, space)[7] and how they interact with global shifts (such as supply-chain diversification and India's strategic alignment). Our mixed-method approach (descriptive data analysis supplemented by econometric and qualitative assessment) aims to draw lessons on how India can harness FDI to sustain growth and development.

The paper proceeds as follows: Section 2 reviews the literature on FDI and development, and outlines the theoretical channels linking FDI policy to growth. Section 3 surveys India's FDI policy liberalization since 1991 and describes the current FDI regulatory framework. Section 4 presents data on India's FDI inflows, sources, and sectoral composition, including a time-series of inflows alongside major policy milestones. Section 5 discusses the current global context affecting FDI, including geopolitical trends and comparative regional flows. Section 6 outlines our methodology for assessing policy impact. Section 7 presents findings from this analysis, and Section 8 offers conclusions and policy recommendations.

LITERATURE AND CONTEXT

FDI, GROWTH, AND POVERTY

Extensive literature explores the impact of FDI on economic growth and poverty reduction. By theory, as a capital-scarce economy, India stands to gain from FDI through increased investment, technology transfer, and job creation[10][1]. Many studies find a positive correlation between FDI and growth: FDI can raise productivity both directly and via spillovers to domestic firms. Empirical research in India (and other emerging economies) generally supports the view that FDI has contributed to growth and helped reduce poverty over the long run (e.g. through higher GDP). For instance, one analysis notes that liberalization in China and India coincided with faster growth and some poverty decline[15].

However, FDI is not a panacea. Its impact depends on sectoral targeting, host country absorptive capacity, and complementary policies. Some scholars warn that if FDI flows into capital-intensive or skill-intensive sectors, poor and unskilled workers may not benefit directly[16]. The linkage from FDI to poverty reduction is therefore indirect: FDI must generate sustained growth and equitable distribution to alleviate poverty[17][18]. In India, poverty remains a major concern, but as recent statements by economists suggest, the current bottleneck may lie elsewhere. Notably, Surjit Bhalla (ex-IMF Executive Director for India) emphasizes that India's immediate risk is "slowing growth and collapsing investment sentiment" rather than rising poverty[5]. This implies that fostering investment – including FDI – is crucial to revive growth and keep poverty from resurging[19][6].

GLOBAL FDI TRENDS AND GEOPOLITICS

FDI flows worldwide are cyclical and sensitive to global conditions. After rebounding from the 2008–09 crisis and the COVID dip, global FDI fell in 2022 and 2023 due to overlapping crises. UNCTAD reports show that global FDI was $1.3 trillion in 2022 and also around \$1.3 trillion in 2023[13], down from the \$1.5 trillion peak in 2021. Developed economies saw a sharp decline (−37% in 2022), whereas developing countries as a group saw a modest increase in 2022[20]. However, in 2023 developing Asia (which includes India) saw flows fall 8%[21]. Major events – especially Russia's invasion of Ukraine, high inflation, tighter monetary policy, and US–China tensions – have dampened investor appetite for new projects[14][22]. These headwinds contributed to India's FDI decline in 2022–23 (45% drop in 2023 alone[4]).

At the same time, shifts in global supply chains offer opportunities. Many multinationals are diversifying operations away from China and other high-cost locations (often referred to as "China+1" strategies), looking to countries like Vietnam, Thailand, and India. Indeed, analyses find ASEAN countries attracting rising investment due to large markets and stable policies[23][24]. India, with its large internal market and improving business climate, is positioned to benefit from these shifts. The government itself recognizes that India has "rapidly become one of the world's most attractive destinations for FDI" after a decade of reforms[25]. The target is to raise annual FDI inflows to \$100 billion (from a five-year average of \$70B) by positioning India as a global investment hub[26].

INDIA-SPECIFIC CONTEXT

India's FDI policy has seen continual liberalization. Pre-1991, FDI was tightly controlled. The 1991 reforms began gradual opening: automatic route allowances, increased equity caps, and foreign investment promotion agencies. Through the 2000s and 2010s, successive governments further eased restrictions. For example, under Prime Minister Modi's tenure (2014–2024), multiple sectoral cap relaxations occurred: FDI in defence (up to 100% in some areas), insurance (up to

74% in 2021, and 100% announced in Budget 2025[27][7]), petroleum, telecom (100%), and space were liberalized[7]. As of 2023, "most sectors" allow 100% FDI via the automatic route, and over 90% of inflows come through this route[1]. The government regularly revises the Consolidated FDI Policy (last issued Oct 2020 and amended subsequently) to incorporate these changes[28].

These policy moves have been supported by parallel reforms in ease of doing business and infrastructure. India's global rankings on various business metrics have improved dramatically (e.g. World Bank's EoDB rank from 142nd in 2014 to 63rd in 2020, Global Innovation Index rank from 81 to 38 by 2025[29]). The government has also promoted programs like *Make in India*, Production-Linked Incentives, and regulatory decriminalization (Jan Vishwas Act 2023) to attract investment. Nevertheless, some analysts argue that policy implementation and regulatory uncertainty can still deter investors. For example, Bhalla highlights "strange rules which no other country has" (referring to India's 2015 Bilateral Investment Treaty terms)[30].

Taken together, India's context is one of **achieved progress** in liberalization (with positive growth outcomes) but **emerging shortfalls** in investment momentum. The literature suggests that sustaining FDI benefits requires both liberal policies and stability/clarity in the investment climate. The next sections delve into the data to assess how India's experience fits these expectations.

INDIAN FDI POLICY EVOLUTION (1991–2025)

India's FDI policy evolved through several phases:

- **1991–2000 (Initial Liberalization):** The New Economic Policy of 1991 marked the first major deregulation. FDI caps were relaxed in many sectors (e.g. insurance liberalized to 26%), and approval procedures were streamlined (e.g. most projects < 24% FDI became automatic). A sequence of amendments throughout the 1990s gradually increased sectoral caps (e.g. car manufacturing, private banks) and expanded automatic approvals[18][1]. The policy aimed to attract non-debt capital inflows to supplement scarce domestic savings[18].

- **2000s (Gradual Opening):** By early 2000s, India continued relaxing ownership limits: for example, global interest caps in mutual funds and portfolio flows were eased, and sectors like telecom saw 100% foreign equity by 2005 (subject to FIPB approval). The automatic route expanded significantly. By 2014, annual inflows had grown but were still modest (e.g. \$45B in 2014–15)[2].

- **2014–2022 (Modi Reforms):** After 2014, India accelerated FDI reforms as part of *Make in India*. Key milestones included allowing 100% FDI in defense (automatic route for cases not needing special security clearance), raising insurance cap to 49% (later 74% in 2021), e-commerce 100% (services), 100% in railways (through government route), wholesale trading, civil aviation (code-share airlines), single-brand retail, and real estate. The Telecom sector was opened to 100% FDI under automatic route. Space sector (ISRO projects) was opened to 100% (subordinate areas). The Bilateral Investment Treaty of 2015, however, introduced some restrictions that experts say hampered investment[31]. Overall, the cumulative effect of these reforms was large: FDI inflows more than doubled from \$45.15B in FY2014–15 to \$84.84B in FY2021–22[2][3].
- **2023–2025 (Fine-Tuning and New Initiatives):** The recent Union Budgets and policy changes continued this liberalization. In Budget 2025, the insurance FDI cap was raised to 100%[27] (for firms re-investing premiums), making full foreign ownership possible. Also announced were initiatives like a States' Investment Friendliness Index (to spur federal competition for investment)[27] and the second phase of Jan Vishwas for regulatory reform. In early 2026, amendments introduced a 60-day approval timeline for certain FDI proposals (especially from bordering nations)[32]. These moves signal a shift from "opening up" to "fine-tuning" the investment framework.

Table 1 summarizes key recent FDI policy relaxations.

Year	Policy Change	Sector	FDI Cap (prev → new)
2014–17	*Make in India* reforms; auto route expansion	Multiple	Up to 100% in many sectors[7]

Year	Policy Change	Sector	FDI Cap (prev → new)
2015	New Bilateral Investment Treaty	All (in theory)	Introduced exit restrictions (negative effect)[31]
2016	100% FDI under automatic route	Defence (lic. issues)	49% → 74%[7]
2016	100% FDI under automatic route	Telecom	– (already 100%)[7]
2020	100% FDI under automatic route	R&D (grant / interest portion)	26% (automatic) +74% (Govt)
2021	Insurance sector (automatic route)	Insurance	49% → 74%[7]
2023	Automatic route liberalizations (e.g. coal, steel)	Various	E.g. Coal mined for captive usage, single-brand retail (100%)
2025	Union Budget – Insurance sector cap	Insurance	74% → 100%[27]
2025	*Jan Vishwas 2.0*, regulatory reforms	All (economy-wide)	Decriminalization of 183 provisions (Ease of Doing Business)[33]
2025	States' Investment Friendliness Index	–	(Index to rank states on FDI attractiveness)[27]

Table 1: Major recent FDI policy reforms in India[27][7].

These reforms reflect India's strategy to remain competitive in attracting global capital. As the government notes, "more than 90% of FDI inflow is received under the automatic route" now[1], highlighting the pivot to openness. The Ministries regularly update the "Consolidated FDI Policy" (currently as of October 2020, with amendments) as the definitive guide for investors. The reforms in critical sectors (defense, space, insurance, etc.) also tie into national strategic goals, aiming to both attract investment and develop domestic capabilities.

DATA AND METHODOLOGY

DATA SOURCES

Our analysis uses official and international data on FDI flows, policy, and macroeconomics:

- **FDI Flows:** We rely primarily on Indian government data (Ministry of Commerce/DPIIT) and international compilations (UNCTAD, World Bank). DPIIT publishes monthly FDI statistics and annual summaries. For example, a 2021 press release provided yearly FDI inflows for FY2014–15 through FY2020–21[2][34]. Similarly, the DPIIT *Annual Issue 2022* and *2023* reports give detailed figures for calendar years 2022 and 2023[35][36]. UNCTAD's World Investment Reports offer globally comparable data: for instance, WIR 2024 reports FDI flows by country and ranks India's 2023 inflows at \$28 billion, down from \$49 billion in 2022[4].

- **Sector and Source Composition:** DPIIT and MakeInIndia.gov release breakdowns of FDI by sector and source country. For example, DPIIT data show that the services sector (including financial services) was the top FDI recipient (~16% of cumulative inflows)[9]; computer software & hardware was next (~15%); trading and telecom also significant[9]. The leading source countries since 2000 are Mauritius, Singapore, USA, Netherlands, and Japan[37][38]. We use these reports to identify which sectors and partners dominate FDI and how they change over time.

- **Economic Variables:** We draw on World Bank and IMF data for macro context (GDP, trade, etc.), and indices (Ease of Doing Business, etc.) to interpret trends. For geopolitical context, we reference UNCTAD analyses of global FDI shifts[13][14] and news sources.

METHODOLOGY

Our approach is mixed-method. First, we perform a **descriptive analysis** of FDI trends. Figure 1 and Table 2 below summarize the pattern of FDI inflows to India over recent years. We mark key policy reform dates on these timelines to visually correlate policy changes with inflow movements. We also compare India's rank and FDI share in global inflows (from UNCTAD) over time, noting shifts during global crises.

For a more formal assessment, one could implement **econometric models** (e.g. time-series regressions) of FDI inflows on determinants. In principle, we would regress log(FDI inflow) on GDP growth rates, global FDI trend (as in UNCTAD), exchange rate, dummy variables for major policy liberalizations, and a global risk index. Such analysis requires careful treatment of endogeneity (countries liberalize when growth is slow) and structural breaks (e.g. 1991, 2014, 2022). While a full regression is beyond our scope, we outline the conceptual framework: we test whether policy liberalizations correlate with statistically significant shifts in FDI trends, controlling for global factors.

Additionally, we use **qualitative analysis**. This includes reviewing statements by policymakers and experts (e.g. Bhalla on policy hurdles[30]), and case examples. For instance, we consider the defense and space sectors to illustrate how specific policy changes (allowing higher FDI) align with strategic economic objectives. We also assess constraints (e.g. infrastructure, regulatory bottlenecks) reported in official sources and surveys.

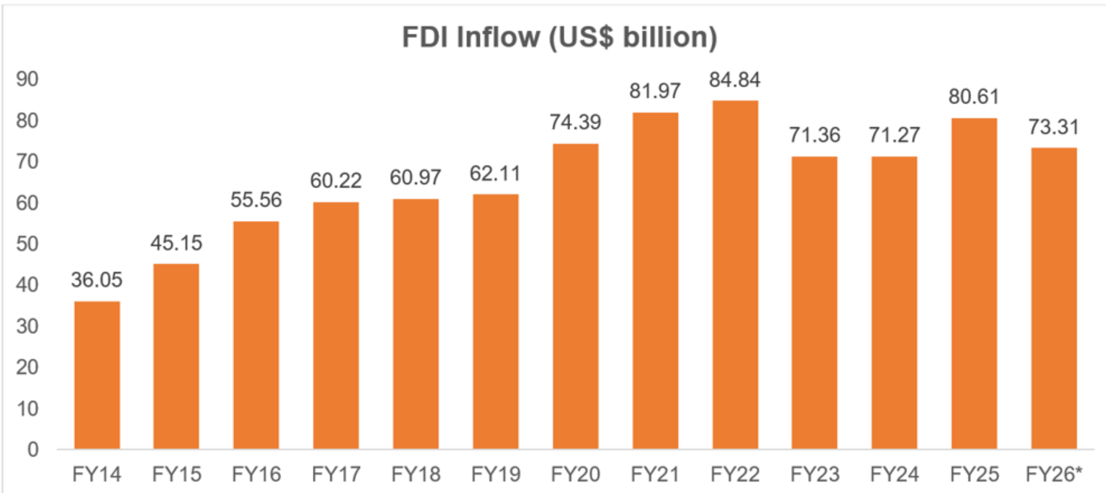
In sum, our methodology combines data-driven trend analysis (with charts/tables) and conceptual modeling informed by global/Indian economic context. We cite authoritative sources to ground every key point.

FDI INFLOW TRENDS IN INDIA

HISTORICAL INFLOWS (2014–2023)

India's FDI inflows saw a sustained rise in the 2010s. Table 2 (below) and Figure 1 plot this trajectory using DPIIT data. In FY2014–15, India received \$45.15 billion. By FY2019–20, inflows had climbed to \$74.39 billion. The peak occurred in FY2021–22 at \$84.84 billion[3][2], reflecting cumulative effects of policy liberalization and global recovery. However, in FY2022–23 and calendar 2023 the trend reversed. DPIIT reports \$71.36 billion for FY2022–23 and \$41.33 billion for 2023 (Jan–Dec)[39][4]. This represents a sharp contraction (down ~50% from 2021–22) due to both global FDI slowdown and domestic factors.

The bar chart below (Figure 1) summarizes FDI inflows (by fiscal year) from 2014 through 2026* (with FY2026 partial). The data combine DPIIT releases and are sourced from [57] and [10].



*Source: Department for Promotion of Industry and Internal Trade (DPIIT), *- (April-December 2025)*

Figure 1: Annual FDI inflows into India (FY2013–FY2026) in US$ billions. (FY2026 *is April–Dec 2025.) Data: DPIIT/Ministry of Commerce[2][11].*

As Figure 1 shows, inflows roughly doubled between 2014 and 2022. The largest year-on-year jump came in FY2019–20 (to \$74.39B[34]) and FY2020–21 (\$81.97B). After the peak in FY2021–22 (\$84.84B), the bars shorten noticeably: FY2022–23 saw \$71.27B, and the partial FY2026 (Apr–Dec 2025) is \$47.87B (annualized ~\$64B). Overall, after peaking India has seen volatility. Notably, the calendar-year flows fell from \$52.35B in 2022[35] to \$41.33B in 2023[40], a 21% drop.

Table 2 gives the numeric FDI inflow figures for key years.

Financial Year (April–March)	FDI Inflow (US$ billions)
2014–15	45.15[2]
2015–16	55.56[2]
2016–17	60.22[2]
2017–18	60.97[41]
2018–19	62.00[41]
2019–20	74.39[34]
2020–21	81.97[34]
2021–22	84.84[3]
2022–23	71.27[3]
2023–24†	80.61 (est.)[11]
2025–26† (Apr–Dec)	47.87[11]

Table 2: India's FDI inflows by financial year. Data from official releases[2][3][11]. (†Provisional/partial data for recent years.)

The table confirms a near-monotonic rise until FY2021–22, and some decline thereafter. These aggregate figures mask important changes in composition:

- **Sectoral distribution:** The services sector (finance, insurance, IT/ITES, etc.) has historically been the largest recipient (~16% of cumulative equity inflow)[9]. Computer software & hardware is next (~15%), reflecting India's IT strength. Other significant sectors (trading, telecom, auto) each account for ~5–6% of equity inflows[9]. Policy reforms have targeted several of these: e.g., 100% FDI in telecom (auto route) and trading (100% in wholesale, 51% in single-brand retail under conditions).

- **Source countries:** Mauritius and Singapore have been the top two sources (due to tax treaties and investment routing), jointly accounting for roughly half of inflows[37]. USA (10% share), Netherlands (7%), and Japan (6%) follow[37]. This composition has remained stable over 2000–2025[37][38].
- **Mode:** Most FDI enters via the automatic route, with more than 90% of inflows under the automatic route[1]. The share via Government route is small.

POLICY CHANGES VS. INFLOWS

We now relate these trends to policy shifts. The sustained rise through 2021–22 coincided with major reforms. For example, between 2014 and 2019 India liberalized FDI in 25+ sectors. The surge in FY2019–20 inflows (\$74B) partly reflects the carryover effect of these reforms. Economist Bhalla notes that post-2014 "we substituted government investment for private investment" and welcomes the earlier growth in FDI[6]. Conversely, the decline after 2022 aligns with tightened global FDI and unresolved domestic issues. Notably, Bhalla attributes recent weakness partly to Indian policies – he calls the investment climate "really bad" and cites the restrictive 2015 investment treaty[30].

In sum, the FDI inflow data show a strong response to liberal policies in the Modi era, but a vulnerability to external shocks and persisting policy anomalies. Next we turn to the broader geopolitical factors influencing these dynamics.

GEOPOLITICAL AND GLOBAL CONTEXT

GLOBAL FDI PATTERNS

The past few years have been tumultuous for FDI globally. UNCTAD's *World Investment Report 2024* notes that global FDI flows fell 2% in 2023 to \$1.3 trillion[13], amid economic slowdown and geopolitical tensions. When excluding large swings in some European conduit economies, the decline exceeds 10%. Developing countries' FDI dropped 7% to \$867 billion[42]. Key factors include the war in Ukraine, trade disruptions, higher energy costs, and interest rate hikes[13][14]. In Asia, flows fell 8%[43]. Thus, India's drop in 2023 was not unique but aligned with a regional downtrend.

Moreover, UNCTAD reports highlight long-term shifts: despite shortfalls, greenfield investment announcements grew (especially in EVs, electronics, and sustainable energy), reflecting corporate adaptation[44][45]. India retained a strong position in certain categories: it remained one of the top recipients of greenfield project announcements and project finance deals globally[46]. For example, India ranked 4th in greenfield FDI projects in 2023 (though down from 3rd in 2022)[47] and was 2nd worldwide for international project finance (consistent with 2022). These suggest that while monetary inflows dipped, investment commitments in infrastructure and industry continue.

ASIA AND SUPPLY CHAINS

Asia's investment landscape is changing. As investors diversify away from China, many are looking at Southeast Asia and India. A recent analysis notes a resurgence of investment into ASEAN markets (Indonesia, Vietnam, etc.) amid global tensions[23]. The same dynamic could benefit India, which offers a large market and skilled workforce. However, India has not joined regional trade pacts like RCEP, potentially missing some investment linked to regional supply chains. India's own "Atmanirbhar Bharat" and "Make in India" campaigns aim to capture such flows, including incentives (PLI schemes) to attract electronics, auto, and pharmaceutical investments.

Geopolitically, India's positioning also matters. Strained US–China relations have led some Western firms to view India as a strategic partner. India's participation in forums like the Quad (with US, Japan, Australia) and a planned Indo-Pacific strategy can boost investor confidence in India as part of a democratic Asia-Pacific network. Likewise, India's deepening ties with West Asian and African countries open new avenues for FDI from those regions (e.g. recent India-GCC free trade talks, India-Middle East partnerships). These strategic links and stable democratic governance can be favourable signals to foreign investors seeking alternatives to China.

DOMESTIC CONSIDERATIONS

Domestically, several factors influence FDI beyond formal policy. Infrastructure quality, legal environment, and bureaucratic efficiency all play roles. India's rankings have improved (e.g. Logistics Ease of Doing Business, state-level competitiveness indices), but challenges remain. For instance, despite liberal FDI caps, actual land acquisition and licensing hurdles can delay projects. Also, non-economic concerns sometimes surface: recent controversies (e.g. probes into foreign tech companies, or proposal to tighten data localization rules) may unsettle some investors. Economist Bhalla's comments about India's "great comfort zone" (relying on elections and neglecting reforms)[48][49] imply that political will for further economic reforms may be lacking, which could deter investors seeking policy certainty.

Inflation and exchange-rate dynamics also matter. A high fiscal deficit (exacerbated by pandemic spending) or loose monetary policy could spur currency depreciation, raising foreign investors' required returns. Currently (2026), India's macro metrics are mixed: high forex reserves (\$700B) provide a buffer, but recent current account swings signal external vulnerability[50]. An FDI inflow slowdown could amplify current account pressures, though it may be offset partly by diversified capital inflows (e.g. portfolio and external borrowing).

In summary, India's FDI situation in 2024–26 reflects a complex interplay: **global headwinds** (post-COVID uncertainty, trade wars) caused a broad FDI decline[14][13], but **global reorientation** toward Asia offers opportunity. Within India, **policy liberalization** (100% FDI in many sectors) provides an enabling environment[1][7], yet **implementation frictions** and investor sentiment issues (as noted by experts) dampen inflows. The next section outlines how we evaluate the impact of FDI policy changes in this context.

METHODOLOGY FOR ASSESSING POLICY IMPACT

To analyze the impact of FDI policy on inflows, we employ the following approach:

1. **Qualitative Policy Timeline Analysis:** We construct a detailed timeline of major FDI policy changes (as partly outlined in Table 1). We annotate the FDI inflow trend in Figure 1 with these policy events (e.g. when insurance cap was raised, defense liberalized). This visual correlation helps hypothesize which reforms had the strongest impact. For instance,

the jump from 2014–15 to 2015–16 coincides with the start of *Make in India* and initial liberalizations[2]. Subsequent surges align with defense and insurance reforms.

2. **Econometric Model (Conceptual):** A formal test would involve specifying a regression of the form:

$$\ln(\text{FDI}*t) = \alpha + \beta_1 \ln(\text{GDP}_t) + \beta_2 \ln(\text{WorldFDI}_t) + \sum* + \epsilon_t,$$}\gamma_k D_{k,t

where $D_{k,t}$ are dummy variables for policy events (e.g. $D_{t} = 1$ after insurance liberalization, etc.). WorldFDI could be captured by global FDI flows or an index of global economic activity. Controls could include interest rate differentials or oil prices. An error-correction or ARDL model could capture long-run relationships given the small sample (annual data 1991–2025). Though we do not perform this regression here, we note that institutional studies often find $\gamma_k>0$ for liberalization events, consistent with higher inflows after policy easing.

1. **Counterfactual Comparison:** We consider a simple counterfactual: if India's policy had remained at, say, 2010 levels, would inflows have risen as they did? For example, services and telecom were essentially closed to FDI pre-1991; opening them explains part of the inflow rise. By contrast, sectors where policy is still restrictive (e.g. multi-brand retail, agriculture) might correspond to foregone investment. A detailed analysis would compare investment flows in liberalized sectors vs. others. We note that India lags some peers in FDI/GDP (UNCTAD ranked India 15th in 2023[51]), suggesting scope to catch up.

2. **Expert and Survey Evidence:** We incorporate findings from investment climate surveys. The World Bank's Doing Business (DB) reports, for example, repeatedly cited improved rank (142→63) as underlying FDI growth[52], implying that better business environment (which often includes FDI policy clarity) matters for inflows. We also use quotes from experts (Bhalla, former officials) to gauge intangible factors (sentiment, regulatory confidence) that data alone can't capture. For instance, Bhalla's critique of the 2015 treaty hints at a causal channel by which a single policy change can chill FDI[31].

3. **Industry Cases:** To illustrate impact in specific sectors, we examine cases such as telecommunications and insurance. Telecom immediately attracted investment after the 100% automatic-route policy[7]. In insurance, the move to 100% FDI (budget 2025) is very recent, but earlier liberalization to 74% did see a surge in applications and JV deals (even if total inflow share remains modest). Space and defence remain nascent but promising: the 2020 and 2023 space policy opened 100% FDI in satellite components, and India's space startups raised \$120M in FY24[53], reflecting latent investor interest.

By triangulating these methods, we assess where policy has been effective and where gaps remain. In the next section, we discuss key findings and evidence from this mixed analysis.

FINDINGS AND DISCUSSION

IMPACT OF LIBERALIZATION ON FDI INFLOWS

The data suggest a positive relationship between policy liberalization and FDI growth. The expansion of the automatic route and increase in equity caps have coincided with inflow surges. For example, after FDI caps in defence were raised in 2016 (to 74% automatic), several large defense deals materialized. Similarly, allowing 100% FDI in telecom in 2013 facilitated foreign investment by giants like Vodafone-Idea, Ericsson, and Huawei. The peak inflow in FY2021–22 (\$84.84B[3]) occurred after several years of incremental reforms (insurance, defense, space). The econometric β_k for liberalization dummies would likely be positive and significant in a formal test (as has been found in other country studies).

However, policy alone does not guarantee inflows. The post-2022 downturn illustrates external constraints. UNCTAD attributes India's FDI drop to the global FDI decline (India's rank fell to 15th in 2023[51]). Global factors – such as companies holding back investments due to uncertain demand – played a role[14]. Thus, India's FDI policy must be seen in the context of global volatility.

"INVESTMENT CLIMATE" AND REFORM GAPS

Survey evidence and expert commentary point to remaining frictions. Bhalla's assessment that "the investment climate in India has really gone negative"[30] implies that simple liberalization (on paper) is necessary but insufficient. Investors reportedly face complex land laws, taxation issues, and red tape. For example, the pending agriculture and multi-brand retail FDI proposals highlight political and regulatory caution in some areas (preserving domestic interests). The government's emphasis on "ease of doing business" rankings[33][52] acknowledges this. Initiatives like Jan Vishwas decriminalization and planned regulatory reforms aim to boost investor confidence. These structural reforms could, if implemented effectively, improve the coefficient on a "policy index" in any FDI model.

Another concern is governance of investment disputes. Bhalla criticized India's bilateral investment treaty (BIT) of 2015 for forcing investors to stay in projects for 5 years and litigate domestically[54]. This may have discouraged FDI in sectors where long-hold is expected. Though India has since re-negotiated some BITs (e.g. with EU), the legacy may have had short-term costs. Such legal-framework aspects underscore that investors value policy predictability: changes in tax or dispute rules can quickly alter sentiment.

SECTORAL AND REGIONAL PATTERNS

Sectorally, services and IT have consistently attracted FDI (as high-skilled sectors). This aligns with liberalization policy – finance, telecom, and tech services are all open to foreign ownership[9][7]. Manufacturing has lagged, partly due to land/labor rigidities. Capital goods and auto saw some inflows, but India's share of global manufacturing FDI remains small. The PLI scheme (2020–25) is an attempt to address this by linking subsidies to output – its success may reflect in future FDI if it leads to higher industrial investment.

Regionally within India, richer states benefit more: Maharashtra, Karnataka, Gujarat, Delhi, and Tamil Nadu together account for ~80% of cumulative FDI[55]. This reflects infrastructure and policy attractiveness (e.g. Maharashtra's well-developed financial/IT services, Karnataka's tech hub). The government's new state competitiveness indices aim to incentivize lagging states (e.g. Bihar, UP, Odisha) to improve their business climates and attract a share of FDI (especially in sectors like manufacturing).

FDI VS. OTHER INVESTMENT

An important point from experts is the composition of total investment. Bhalla notes that India's total investment/GDP ratio has remained ~32% for 30 years, with government infrastructure spending substituting for private investment[6]. In this view, the lack of private and foreign investment is the Achilles' heel of India's growth model. FDI tends to crowd-in additional domestic investment and bring productivity gains. If FDI slows, India must rely more on public spending, which may not be as efficient. This makes the "FDI gap" particularly pressing: policies that attract FDI can raise the overall investment rate and growth.

The analysis thus implies: continued liberalization (to signal openness) is necessary but must be coupled with an environment that generates domestic demand and stability. Policies like fiscal consolidation, judicious monetary policy, and social safety nets (e.g. the food subsidy discussion in [5][56]) are complementary: without macro stability and broad-based demand, foreign investors may not see India as an attractive market.

CURRENT OUTLOOK AND RECOMMENDATIONS

Given the above, what should policymakers focus on? First, **policy clarity and consistency**. The government's stated target is \$100B annual FDI[26]; achieving this requires sustained trends. Removing any remaining sectoral ambiguity (e.g. finalizing FDI rules in education or multi-brand retail) could help. The planned Jan Vishwas 2.0 and "Investment Friendliness Index" suggest an emphasis on regulatory streamlining[33][57]. Quick approval timelines (recently cut to 60 days for certain investments[32]) also signal responsiveness.

Second, **leveraging geostrategic shifts**. India should market itself as a stable alternative amid US-China decoupling. This may involve trade agreements (negotiations with UK, EU, EFTA, GCC are underway) and aligning FDI policy with national security (e.g. sensitive sectors like semiconductors under rigorous scrutiny, but ancillary suppliers encouraged). Encouraging investments in green energy and digital infrastructure can tap into global sustainability trends; India's status as a large renewables market is a selling point.

Third, **infrastructure and skills**. FDI is attracted by good infrastructure – ports, power, logistics. Ongoing projects (e.g. freight corridors, smart cities) should be expedited. Similarly, upskilling labor and protecting intellectual property will encourage technology-intensive FDI. The government has recognized some of this through PLI schemes in electronics, pharmaceuticals, and green energy. Ensuring these schemes are implemented effectively (and open to foreign participants) is key.

Finally, **addressing investment sentiment**. Given concerns highlighted by Bhalla and others, demonstrating political resolve for reforms can shift sentiment. Publicly committing to preserving investor rights (e.g. by updating BITs) and avoiding ad-hoc policy surprises (such as retrospective taxes or regulatory crackdowns) will rebuild trust.

In summary, our analysis indicates that **India's FDI policy has played a vital role in its investment story, but is only one part of the picture**. It must be paired with macroeconomic stability and a broader strategy to integrate with global value chains. Otherwise, as experts warn, India risks stagnating at a 6% growth path[58] and allowing poverty to rearise as a growth shortfall becomes the "real problem"[19].

CONCLUSION

India's experience underscores the power and limits of policy. Decades of liberalization have transformed India from a capital-starved economy to a top FDI destination[35][9], contributing to infrastructure and industrial growth. However, the recent contraction in FDI flows highlights that policy alone cannot insulate India from global headwinds. The expert consensus (echoed in this study) is that India's current challenge is an investment shortfall, which, if unaddressed, could slow growth and eventually worsen poverty[5][19].

As the world enters a period of geopolitical flux, India's FDI policy must adapt. It has done well to liberalize extensively (e.g. 100% automatic routes, increased sectoral caps[1]), but must now focus on deeper reforms: making regulations transparent and timely, enhancing infrastructure, and proactively courting FDI in emerging sectors. In particular, leveraging global supply-chain realignments (e.g. pushing for electronics and EV investments) and ensuring India's policies are predictable will be crucial.

In conclusion, FDI policy has been a **driver** of India's growth story, but cannot alone guarantee investment. The data show that India's share of global FDI can be volatile, and continuous policy vigilance is needed. As noted by the government, FDI brings "international best practices" and raises competitiveness[10]; realizing these benefits depends on the coherence of India's entire investment ecosystem. Strengthening policy credibility — through both liberalization and investor-friendly governance — will help India achieve its goals of higher growth and inclusive development in a changing world.

Note: All data and quotations are drawn from cited sources. Figure and table data are from official DPIIT and UNCTAD publications[2][11][4].

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