Net FDI in India: Understanding the Reality Behind Falling Net FDI

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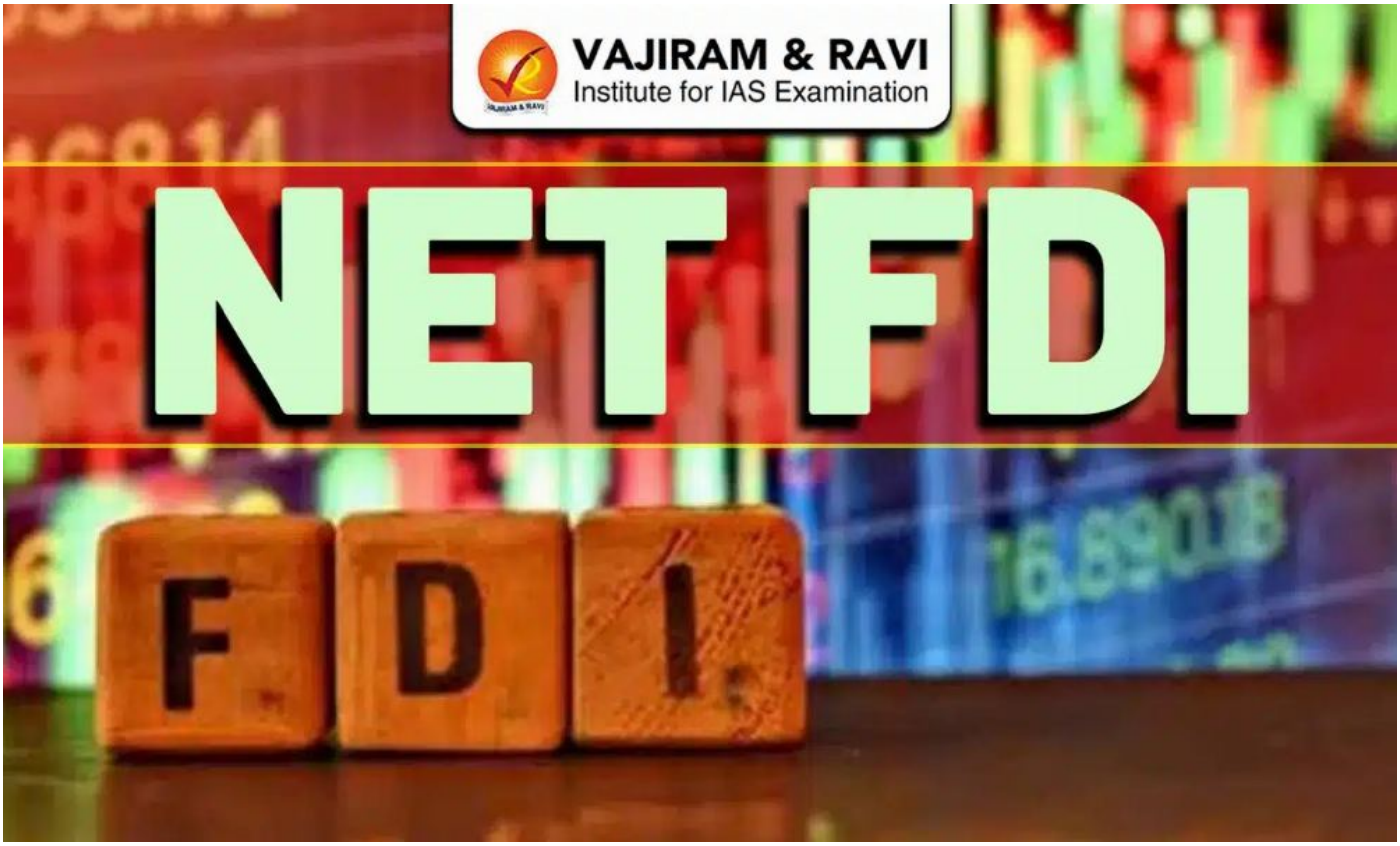

Net FDI Latest News

- India’s net FDI has declined sharply in recent years — from a peak of $44 billion in 2020-21 to less than $1 billion in 2024-25 — even as gross inflows remain strong.
- This has triggered a debate between critics who see it as a sign of weakness and the Chief Economic Adviser who points to large gross inflows as evidence of strength. This article argues that both sides are missing the bigger picture.

Understanding the FDI Gap: Gross vs Net

- **Gross FDI** refers to total capital coming into India. **Net FDI** is what remains after subtracting outflows — disinvestment, repatriation of capital, and profits sent abroad.
- India’s net FDI recovered partially to $7.6 billion in 2025-26 against gross inflows of $94.6 billion — a massive gap that demands explanation.

- The official narrative blames profit repatriation for weak net FDI. However, analysts point out this is misleading.
- Under Balance of Payments (BoP) conventions, dividend remittances are recorded in the current account, not the financial account.
- They widen the Current Account Deficit (CAD) but do not reduce net FDI figures.
- The actual culprit is disinvestment and capital repatriation, which appear in the financial account.

Three Types of FDI: Not All Investment is Equal

- FDI is commonly seen as a uniform, long-term commitment. In reality, it comprises three very different investor categories:
  - **Real FDI (RFDI)** consists of traditional multinational enterprises bringing technology, brands, and productive capabilities. These represent genuine long-term commitments to host country development.
    - Between 2022-23 and 2025-26, RFDI accounted for **41.9%** of effective inflows.
  - **Financial Investors** — private equity funds, venture capital firms, sovereign wealth funds, and asset managers — contribute **40.5%** of effective inflows. Their primary goal is capital growth and **planned exits**, not long-term industrial development.
    - A stark example: Singapore’s Temasek exited Schneider Electric India in 2025, earning **$6.4 billion on a $637 million investment** made just five years earlier.
    - In CY 2025 alone, 45 major PE/VC exits accounted for **$29 billion in outflows** out of a total divestment of $52 billion.
  - **Diaspora investments and Special Purpose Vehicles (SPVs)** make up the remaining **17.6%**. These involve capital raised abroad and channelled through offshore financial centres, and may sometimes include **round-tripping** of Indian funds.

The Problem with Gross FDI Numbers

- A significant blind spot in gross FDI figures is that they mix fresh capital with mere accounting changes — intra-group ownership reorganisations, mergers, share swaps, and conversion of **External Commercial Borrowings (ECBs)** into equity.
- No new money actually enters the country in such transactions.
- Of the $560 billion in equity inflows between 2014-15 and 2025-26, approximately $40 billion fall into this non-fresh-capital category.
- Large individual transactions — such as those involving Bosch and Meesho Technologies — can significantly distort annual inflow and sectoral data.

Manufacturing FDI: A Worrying Decline

- Real FDI into India’s manufacturing sector has declined across three consecutive four-year periods.
- In the most recent period (2022-23 to 2025-26), RFDI into manufacturing accounted for just 10.6% of total effective inflows.

- This is particularly concerning because **manufacturing FDI** — not financial investor FDI — is what drives technology transfer, job creation, and industrial development.

Outward FDI: Maturity or Capital Recycling

- India’s Outward FDI (OFDI) has also risen sharply.
- Between 2023-24 and 2025-26, India invested $65 billion outward — but 45% of this went into “Financial, Insurance, and Business Services” (FIB) sectors, primarily through holding companies and SPVs in Singapore (27%) and the UAE (11%).
- This pattern raises questions. Much of this OFDI flows to holding entities rather than operational businesses, and may represent capital recycling across jurisdictions rather than genuine corporate expansion.
- The example of TML Commercial Vehicles (a Tata Motors subsidiary) routing a $405 million investment through a Singaporean entity to acquire an Italian company illustrates the complexity.
- **GIFT City** further adds to this complexity — OFDI through it rose from $246 million in 2023-24 to $1.18 billion in 2025-26, creating significant two-way capital flows that are difficult to track cleanly.

The True Cost: For Every Dollar In, $1.50 Goes Out

- When outflows from disinvestment, dividend remittances ($118.9 billion), and IPR/royalty payments ($46.6 billion) are added up — excluding OFDI and technical service payments — total outflows between 2022-23 and 2025-26 reached $344.4 billion.
- Against fresh inflows (excluding reinvested earnings) of $230.6 billion, this means for every $1 of fresh inflow, approximately $1.50 flowed out.
- This ratio has steadily worsened: outflows per dollar stood at 56 cents (2014-18), rose to 70 cents (2018-22), and have now crossed $1.50 — signalling a serious external sustainability concern.

Conclusion

- Strong gross FDI numbers can mask a fragile reality. When capital exits faster than it enters, and financial investors crowd out industrial investors, the promise of FDI — technology, jobs, and growth — remains only partially fulfilled.

Source: **TH** | **TH**
