# FDI Freeze or Flow? India's Investment Turning Point

## Overview of FDI Inflows (2024–25)

- RBI's Annual Report 2024–25 shows gross FDI inflows increased by **13.7%** to **$81 billion**.
- However, this growth follows two consecutive years of decline.
- FDI levels remain **lower than in 2020–21**, with a low average growth of **0.3%** in the post-pandemic years.

## Rising Disinvestments and Repatriations

- Despite modest inflows, **foreign investors are withdrawing more funds**.
- Repatriations/disinvestments grew at an average of **18.9%** annually over the last four years.
- Result: Net FDI inflows **halved** from **$56.2 billion (2021–22)** to **$29.6 billion (2024–25)**.

## Historical Comparison of Repatriation Trends

- Early 2000s: Repatriations were **<1%** of gross FDI.
- 2010s: Rose to **20–33%**.
- 2020s: **Surged to 63.5%**, indicating increasing investor exit.

## Discrepancies in FDI Reporting

- UNCTAD reports significantly **lower FDI inflows** than RBI—disparity reached **60% in 2023**.
- Experts suggest this is due to short-term **financial flows** benefiting from **tax treaties**, especially from **private equity and venture capital**.

## Shifting Sources of FDI

- **Singapore (15%)** remains the top contributor; **Mauritius** has also increased its share.
- Declining contributions from major economies like the **US, Germany, UK, France** suggest a shift in investment quality.

## Changing Sectoral Investment Patterns

- **Manufacturing's share** has dropped to **12%**, indicating waning investor interest.
- Declines also seen in **computer services, transport, education, mining**.
- Growth observed in **financial services, energy, communication, hospitality** sectors.

## Rising FDI Outflows from India

- Indian investments abroad have nearly **tripled** to **$29.2 billion** in five years.
- Net FDI inflows reduced sharply to **$0.4 billion in 2024–25**, down from **$44 billion in 2020–21**.

- RBI links outflows to **global EM trends**, and motivations like **tax regimes**, **strategic resources**, and **market access** in developed countries.

## Way Ahead

- **Strengthen long-term investor confidence** by improving policy predictability and ease of doing business.
- **Shift focus from financial flows to productive investments**—especially in sectors like manufacturing and technology.
- **Enhance bilateral investment treaties** and tax agreements to promote sustainable FDI.
- Promote **FDI from technologically advanced economies** to ensure quality and value-added investments.
- **Monitor and reform private equity/VC inflows** to ensure they contribute to economic capacity, not just returns.

## Conclusion

While India has seen a short-term uptick in gross FDI, long-term trends reveal a troubling rise in repatriations and a fall in net inflows. The dominance of short-term financial flows and the declining role of real-sector investments weaken the quality and sustainability of FDI. Combined with rising FDI outflows by Indian firms, these trends threaten the balance of payments and economic resilience. Structural policy reforms are essential to attract durable, value-adding foreign investment in the coming years.