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Transforming India through Foreign Direct Investment, Mergers and Acquisitions, and Industrial Policy

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ABSTRACT

This study explores the complex relationship between Foreign Direct Investment (FDI), mergers and acquisitions (M&A), and industrial policy in shaping India's economic growth. Using a secondary-methods approach, it examines cross-sector foreign direct investment (FDI) inflows, mergers and acquisitions (M&A) trends, and policy changes to identify patterns and links that drive industrial expansion, technological progress, and employment shifts. The results show that FDI provides vital capital and international expertise, whereas M&A activities support consolidation, efficiency, and innovation across sectors. Simultaneously, India's changing industrial policies act as regulatory frameworks that either enable or limit market forces. Case studies from key sectors, such as manufacturing, pharmaceuticals, and information technology, demonstrate wider developmental effects. This study also examines regional differences in the benefits of FDI and M&A, highlighting how state-level policy differences influence outcomes. Finally, it offers policy suggestions to maximize the combined impact of FDI, M&A, and industrial policies for inclusive and sustainable growth in India. By tracing the development and sectoral flow of FDI, analyzing the interactions between FDI, M&A, and industrial policy, and assessing their influence on productivity, jobs, and export competitiveness, this study deepens our understanding of India's

economic modernization and its implications for policymakers.

Introduction: India's economic rise is one of the most significant global developments of the twenty-first century. From a largely agrarian economy at independence to an emerging industrial and service powerhouse, India's transformation has reshaped worldwide trade and investment flows. Yet, despite decades of liberalization and rising foreign capital inflows, the country continues to grapple with structural challenges: premature deindustrialization, a stagnant manufacturing share of GDP, and uneven employment outcomes.

Foreign Direct Investment (FDI) has long been viewed as a catalyst for growth, offering capital, technology, and managerial expertise. Mergers and acquisitions (M&A) have supported consolidation and efficiency across sectors. Industrial policy provides a regulatory framework within which these forces interact, shaping the extent to which foreign capital contributes to domestic industrial upgrading. However, India's experience reveals a paradox: while inflows have grown, their developmental impact remains limited, with much investment concentrated in services and routed through conduit jurisdictions. This study addresses this gap by examining how FDI, M&A, and industrial policy jointly influence India's industrial trajectory. Specifically, it maps the evolution of inflows, examines country- and sectoral-level patterns, and assesses their implications for productivity, employment, and export competitiveness in the Philippines. By integrating descriptive analysis with insights from recent literature, this study contributes to understanding the conditions under which foreign capital can support inclusive and sustainable industrial transformation in India. India's economic growth is one of the most important stories on the global stage as the country transforms from an underdeveloped nation to an economic superpower. This change significantly impacts global economic dynamics, with India's growth prospects and outlook closely tied to factors such as geography, natural resources, technological progress, and government policies. Since gaining independence, India has consistently focused on nation-building and ensuring that its interests are protected. However, the structure of Indian society, level of industrial development, per capita income, consumption of industrial goods, rate of capital formation, and technological advances still lag behind those of developed countries.

Primarily, Indian industrial transformation has been driven by government regulations through industrial policy. The sectoral contributions of industrial sectors to India's GDP have remained nearly constant since the liberalization era. This raises the question: if the Indian economy's balance of payments has improved due to LGP, why has the industry's sectoral contribution not increased significantly? The transformation of India's industrial sector by domestic and global markets remains unclear. The Indian

economy needs sufficient financial resources, technology, and top human resources to sustain and mobilize both financial and human capital in the industrial sector. However, the structure of Indian society—especially the caste system—along with institutional design, public policy, and prevailing mindsets, presents significant challenges to industrial development.

Foreign Direct Investment (FDI) is a crucial external source of financial resources that can boost economic growth. FDI is based on mutual benefits for both countries, as it offers opportunities to leverage resources for higher returns and to create jobs. The level of FDI depends on the type of product, government policies, and the domestic market environment. The Government of India aims to attract FDI through joint ventures because international companies bring both capital and technology to India. These companies have their own industrial designs, supply chain management, technology, and market strategies, which help them expand and achieve better returns by transferring resources from developed to developing countries. However, after 35 years of liberalization policies, the question remains: what has India gained in terms of technology transfer, industrial output, and contributions to GDP? We know that adequate investment leads to improved GDP growth. Higher GDP growth can reduce economic disparities and create opportunities for more rapid development. However, in India, inequality and discrimination in the product market continue to rise. Nagaraj (2025) raised a similar concern, noting that India's GDP growth rate slowed in the 2010s after decades of steady acceleration since the early 1980s. This slowdown has adversely affected employment, poverty reduction, and nutritional outcomes. Why did this happen? The study indicates that India's premature deindustrialization and increasing reliance on imports from China are key factors in this decline. Since 1991, the GDP share has remained stagnant at around 15-17 percent, and annual industrial growth rates have sharply declined since 2015-16, even excluding pandemic years. Manufacturing employment has decreased, while agriculture's share has increased in the 2010s, suggesting premature deindustrialization. The rising share of fixed investment in services is driven mainly by the telecom, government, and other service sectors. Correspondingly, net FDI inflows and domestic capital market mobilization, as a percentage of GDP, decreased in the 2010s. Up to 70 percent of FDI is directed toward brownfield rather than greenfield investments.

Indian industrial sectors primarily attract FDI, which is linked to international trade and manufacturing, supported by Indian consumer spending. The government aims to provide infrastructure and regulations to draw global financial resources for capital formation, but this is often hindered because MNCs have their own terms and conditions for investment. FDI also depends on the government's trade agreements; multilateral and bilateral deals offer opportunities for countries to negotiate and form regional blocs to facilitate FDI. However, India has lost some regional trade agreements owing to its domestic structure

and focus on international regional blocs. Each developed country has strengths in terms of formation and cooperation, including trade agreements at the regional and bilateral levels. FDI depends on global trade agreements because MNCs use platforms to distribute goods and services far from their headquarters, motivated by cheap labor and easy transportation across the markets. International trade agreements under the WTO provide safety and security for global products worldwide.

Review of Literature:

Arya et al. (2024) conducted a similar study on trade, FDI, and economic growth in BIMSTEC and BRICS-TM (Brazil, Russia, India, China, South Africa, Turkey [Türkiye], and Mexico). They found that GDP and FDI are positively correlated in the long term. Cutcu and Keser (2024) examined the long-term co-integration between the democracy index and foreign direct investment (FDI). They included these factors because of their growing strategic importance and potential to drive economic growth in the region. Dash et al. (2024) analyze the asymmetric impact of Foreign Direct Investment (FDI) on human development in five South Asian countries from 1990 to 2021. The results show that both positive and negative FDI shocks positively influence human development, with positive shocks having a stronger long-term effect. Mahna et al. (2025) find that investments in a greener, more technologically advanced economy have greater potential to achieve equitable growth and sustainability. The increasing role of sustainable development in determining Foreign Direct Investment (FDI) levels has driven research into its main trends. Fernandes and Ambrammal (2025) note that Intellectual Property Rights (IPRs), Foreign Direct Investment (FDI), and entrepreneurship (ENT) have been key areas of research, leading to extensive studies in these domains. Kautish et al. (2025) examined how economic growth (GDP), industrialization (IND), mineral rents (MR), and population growth (PG) influence CO2 emissions (CO2) in India, one of the fastest-growing economies in the world. The findings also show that industrialization (IND) negatively affects CO2 emissions, supporting the Environmental Kuznets Curve (EKC) hypothesis in India. Additionally, the short-term results indicate that mineral rents (MR) negatively affect CO2 emissions. Mahna et al. (2025a) studied the key factors influencing foreign direct investment (FDI) inflows in emerging economies, focusing on environmental, economic, governance, and social pillars. This suggests that enhancing FDI quality and adopting sustainable practices can help host countries achieve the Sustainable Development Goals by 2030. Nasser et al. (2025) explore historical and economic narratives, highlighting gaps in understanding globalization and its effects on current labor markets in developing countries—India and Nigeria—between 1990 and 2023. This study addresses a significant gap in the existing literature on the impact of globalization on labor market dynamics, including negative effects, such as job loss, and positive effects, such as shifts in global wage structures.

Identifying correlations between employment quality and globalization-related variables, such as technological progress, FDI, specific policy events, and timing, can help craft policies to mitigate the adverse effects of globalization on employment quality. The study finds that while globalization has increased economic integration, it has also worsened job security in India. Kumar et al. (2025) analyze the influence of various factors on exports in the Central, Eastern, and Southeastern European (CESEE) region from 1995 to 2022. The results indicate that GDP, FDI, inflation, domestic credit, and the HDI positively influence exports. Kumar, Kaur, et al. (2025) examined the relationships among CO2 emissions, income inequality, ECI, FDI, HDI, and economic growth. The findings suggest that income inequality hampers growth, whereas FDI boosts GDP but exacerbates income disparities. Human development promotes growth and emission reduction. Sadraoui and Sallam (2025) investigated how government policies affect industrial sustainability in Gulf Cooperation Council countries, focusing on economic diversification, environmental regulation, and incentives. They offer policy suggestions for long-term industrial stability. Nazzal et al. (2025) provide new insights into the evolution and current state of research on foreign direct investment (FDI) and multinational corporations (MNCs) over the past 50 years, especially in emerging economies. The results show that the literature on FDI by MNCs in these economies can be divided into subthemes such as FDI's impact on economic development, the internationalization of emerging-market multinationals, the influence of institutional factors on MNC behavior and performance, and the need to rethink current international business theories to understand the evolution of emerging-market multinationals. Aregbeshola and Adekunle (2025) explore the macroeconomic factors driving divestment and emphasize their importance. The findings reveal that previous divestment decisions influence current actions, with high inflation rates encouraging divestment, likely because of risk aversion in volatile markets, similar to the effect of interest rates. Anticipated currency depreciation also prompts divestment as firms seek to avoid these financial losses. Conversely, higher domestic interest rates tend to reduce divestment, whereas economic growth and political stability have more subdued effects. Overall, this study underscores that macroeconomic stability plays a crucial role in reducing the likelihood of divestment, highlighting the importance of stable economic conditions in preventing firms from divesting their investments.

Hadili et al. (2025) examine the effects of environmental resource productivity (ERP) on Chinese provinces from 2000 to 2024, revealing adverse impacts of increases in FDI and GDP. Bala et al. (2024) examine the effects of foreign direct investment (FORGDIR) on the relationship between green levies (GRENLEV) and green energy technologies (GETs). The findings suggest that FORGDIR reverses the positive effect of GRENLEV on GETs, necessitating the design of green policies. Sharma and Sharma

(2025) investigate the impact of Foreign Direct Investment in Research and Development (FDI-R&D) on firms' innovation output in India from 2010 to 2020. They find that firms with FDI-R&D patent more than non-FDI-R&D firms. Nguyen et al. (2018) examine the effects of institutional quality, inward FDI, and trade openness on the domestic credit equilibrium in 33 emerging economies from 2002 to 2015. Aurangzeb and Stengos (2014) explore the link between Foreign Direct Investment (FDI) and economic growth, revealing that countries with higher FDI inflows experience higher export productivity, indicating FDI's significant role in development. Masron et al. (2012) examine the risk aversion of developed FDI inflows versus FDI from developing countries in the Malaysian manufacturing sector, focusing on the economic development in host countries. Maryam and Mittal (2020) explored the macroeconomic variables influencing FDI inflows in the BRICS countries, emphasizing how FDI impacts economic growth and development, which should resonate with policymakers and researchers seeking information.

Bhat and Narayanan (2011) examine the determinants of outward FDI by firms in India, focusing on technology sourcing, size, global network linkages, skills, and product types in the chemicals and IT industries. Li and Wu (2024) explore the impact of two-way foreign direct investment (FDI), including greenfield and M&A activities, on technological innovation in China, revealing that it promotes innovation, positively modifies it, and reduces the adverse effects of IPR protection. Djokoto (2023) examines the crowding-out effect of foreign divestment on domestic investment in the food manufacturing sector and highlights the need for policies to attract and retain such investments. Chawla and Kumar (2023) found that India's GVC participation rate has increased, but its share of participation gains remains small compared to other countries. Key drivers include attracting high-quality FDI inflows and fostering a mutually beneficial FDI-GVC relationship, although sectoral differences and country-specific factors affect these outcomes. Bellos and Golitsis (2023) explored the relationship between state capacity and macroeconomic and financial variables in G-20 economies from 1980 to 2020. The results show that domestic credit to the private sector, market capitalization, FDI, and gross capital formation affect state capacity.

Varma et al. (2015) explored the motives driving FDI flows from India to Latin America, revealing that these flows are both asset-seeking and asset-exploiting, primarily from the IT and pharmaceutical industries. Mishra et al. (2024) examined the impact of foreign direct investment (FDI) on firms' productivity, revealing mediating factors such as firm age, export intensity, R&D intensity, and ownership patterns. Uddin et al. (2024) examine the relationship between fintech and environmental efficiency in G20 countries, highlighting the positive impact of FDI but also the adverse effects of

combining fintech with FDI. Shirodkar et al. (2023) found that institutional fragility in India affects Indian firms' internationalization, with firms from fragile regions having lower levels of internationalization. This effect is moderated by foreign direct investment (FDI) and firm-level linkages. Nistor (2015) analyzed FDI flows in the BRICS economies, providing recent data on sources and benefits that can inform current policy and academic discussions on economic development. Ashraf et al. (2024) examined the impact of outward foreign direct investment (OFDI) on total factor productivity (TFP) in 85 global economies. The results show that total OFDI has no effect on TFP and that promoting OFDI can be beneficial once countries have developed human capital and participate in international trade. Andreff and Andreff (2017) find that multinational companies in post-communist transition economies (PTEs) experienced a boom in outward foreign direct investment (OFDI) from 2000 to 2007 but faced financial crises and recessions. OFDI favors host countries, developed market economies, and tax havens, with push factors determining it. Sakyi and Egyir (2017) use Bhagwati's hypothesis, which suggests that trade and FDI interaction enhance economic growth in 45 African countries, supporting policy formulation for export-promotion strategies and FDI channeling. Rao et al. (2009) examined trends in inward foreign direct investment (IFDI) and multinational production in Canada and abroad. They assessed their impacts on the Canadian economy. They found that both inward and outward FDI provide significant net long-term economic benefits to both home and host countries. Emako et al. (2022) examined the impact of foreign direct investment (FDI) on economic growth in 19 developing countries from 2005 to 2018, revealing that manufacturing FDI positively influences growth, while tertiary FDI negatively affects it. Iqbal et al. (2018) found that India is attracting foreign investments and outward foreign direct investments, with the highest levels in Mauritius, Singapore, Hong Kong, and Switzerland. Indian corporations invest in various sectors, with financial and business services being the most popular destinations. Álvarez and Torrecillas (2020) reveal a correlation between home country characteristics and knowledge-related arguments in explaining M&A outflows, highlighting the potential for bilateral learning processes between national systems of innovation and emerging multinationals. Diaconu (2014) analyzed ASEAN's inward FDI trends from 1997 to the present, identified factors that influenced flows during crises, and estimated future evolution, highlighting Southeast Asia's competitive advantages. Nazzal et al. (2023) analyzed the FDI literature on multinational corporations in emerging economies, identifying influential authors, journals, and articles. Bhasin and Jain (2015) explored the impact of host country factors on the attraction of outward Foreign Direct Investment (OFDI) from India, revealing that technology, bilateral investment treaties, and FDI openness are significant determinants. Mohanty and Sethi (2019) explored the impact of outward foreign direct investment (FDI) on human capital, gross capital formation, inflation, trade openness, and economic growth in BRICS countries from 1985 to 2017

using Fisher and Johansen's co-integration tests. Amendolagine et al. (2023) examined how multinational enterprises transfer knowledge and innovative capabilities in green technologies to their global subsidiaries, focusing on host country characteristics, specific technology, and mode of entry. The results show that green FDIs are more effective in less-developed countries. Saikia and Borbora (2018) investigated the dynamic relationship between India's FDI position and macroeconomic factors using vector error correction modelling (VECM) and dynamic analyses, revealing no short-term causality.

Jena and Sethi (2021) explored the impact of foreign capital, including FDI, remittances, and aid, on South Asian economic growth using econometric tools. They revealed a long-run causality between the variables. Lee et al. (2024) explore the determinants of FDI inflows, showing that economic indicators are most important for developing economies, social indicators are more significant for developed economies, and institutional indicators are weak. Moosa's (2015) study on FDI determinants has yielded no consensus view, with results sensitive to perspectives, methodologies, and analytical tools. Extreme bound analysis can help identify robust determinants. Djokoto and Wongnaa (2023) examine the impact of foreign direct investment (FDI) on the stages of human development (HD) using panel data from 87 developing, 13 transition, and 34 developed countries between 1990 and 2019 and find that FDI has positively influenced human development in developing countries. The effect was neutral for transitional and developed countries.

Mohanty et al. (2024) examined the relationship between macroeconomic variables and outward foreign direct investment (OFDI) in BRICS and N-11 countries between 1990 and 2019. Bothner (2024) examined the link between institutional quality and foreign direct investment (FDI) flows in developing countries. Sahu (2020) explored the impact of foreign direct investment (FDI) on economic growth in 45 developing countries from 1990 to 2014, finding a significant positive effect in emerging market economies and the Asia and Africa regions. Hoffmann and Vladimirov (2025) found that negotiations favor sellers because they allow them to set preferred payment structures, with higher productivity types and private valuations influencing their choices. Wang et al. (2025) examine how firms' CE initiatives influence their financial performance and that of their supply chain partners. These insights suggest that companies should not only adopt CE initiatives internally but also encourage their supply chain collaborators to do the same, thereby ensuring shared financial and environmental benefits for all involved. Liu et al. (2025) compared domestic and cross-border mergers and acquisitions (M&A). They found that greater uncertainty in cross-border M&A and the risks of both M&A decisions and resource integration increase. D. T. Nguyen et al. (2024) found a positive relationship between an acquirer's ESG rating and the target's relative ESG rating, with environmental ratings exhibiting the most significant

post-merger increase. Cross-border and same-industry mergers and acquisitions (M&A) increase ESG ratings. Darmon et al. (2025) found that Tech Giants such as Google, Meta, and Amazon are conglomerates characterized by platform-based business models and multi-market contact (MMC).

Kushawaha (2025) observed that foreign direct investment (FDI) plays a crucial role in the shift to renewable energy (RE) and has attracted significant global attention. The findings reveal a U-shaped relationship between GF FDI and RE capacity. Simultaneously, merger-and-acquisition FDI positively influences RE capacity, making it an appealing option for increasing RE deployment. Liu, Jiang, et al. (2025) found that the global value chain (GVC) is emerging as the primary mode of international industrial division, occupying a high-end position within the GVC. It has become a significant indicator of a country's industrial development and success in upgrading. Buts et al. (2025) found that over the past 20 years, Chinese investments in the EU have significantly increased. Chinese companies seem mainly driven by market access, growth, and supply chain opportunities, while political motives have been extensively discussed. Cieślik and Tarsalewska (2024) explored institutional differences in bilateral mergers and acquisitions using gravity, knowledge capital, and political economy theories, revealing that factors such as geographical proximity, market size, and regulatory quality influence the activity. Kambanou et al. (2025) emphasized that Innovation and entrepreneurship will be essential to India's transition toward a circular economy, as startups are not bound by linear business models or organizational inertia and play a key role in this transition.

Research Methodology:

This study is based on secondary data sources, and descriptive statistics were used to address the research questions. In this study, we used a dataset from the RBI's Indian Handbook to examine trends in FDI inflow and outflow in India and other countries, as well as product- and service-specific data to explore the overall structure of the Indian economy. This study adopted methods based on data availability. This approach allows for the mapping of long-term trends and the identification of policy-relevant patterns.

Research Objectives:

1. To investigate how the interaction between Foreign Direct Investment (FDI), Mergers & Acquisitions (M&A), and India's industrial policy drives the country's economic development.
2. To map the evolution and sectoral distribution of FDI inflows into India over the past two decades.

3. To identify synergies and trade-offs between FDI, M&A, and industrial policy in promoting productivity, employment generation, and export competitiveness.

Research Questions:

1. What patterns emerge from the interaction between FDI, M&A, and industrial policy in India's transition to a more globalized and innovation-driven economy?
2. What sectors have attracted the highest FDI in post-2010 India, and how has this affected the country's economic diversification?
3. How does FDI contribute to technology transfer and innovation in India's industrial ecosystem?

Data Analysis and Interpretation

In this study, we incorporate three tables (Table 03) to examine the trends and outcomes of FDI and economic development. This table displays the amount of foreign direct investment (FDI) received by different sectors in India, measured in billions of US dollars. FDI refers to investments made by foreign companies or individuals in Indian businesses. The data includes three types of FDI: 1. Investments that require government approval, 2. Investments that are automatically permitted, and 3. Acquisition of existing shares in Indian companies by foreign entities. The table likely breaks down FDI by sectors of the Indian economy, such as technology, manufacturing, and services. This information helps us understand which areas of the Indian economy attract the most foreign investment and how these trends evolve.

Table1: Foreign direct investment inflows (US$ Million)

Year	Gross inflows/ Gross Investments	Repatriation/ Disinvestment	Direct Investment in India	FDI by India	Net Foreign Direct Investment	Net Portfolio Investment	Total
2002-03	5095	59	5036	1819	3217	944	4161
2004-05	6052	65	5987	2274	3713	9287	13000
2006-07	22826	87	22739	15046	7693	7060	14753
2008-09	41903	166	41738	19365	22372	-14030	8342
2010-11	36047	7018	29029	17195	11834	30293	42127
2012-13	34298	7345	26953	7134	19819	26891	46710

2014-15	45147	9864	35283	4031	31251	42205	73456
2016-17	60220	18005	42215	6603	35612	7612	43224
2018-19	62001	18699	43302	12590	30712	-618	30094
2020-21	81973	27046	54927	10972	43955	36137	80092
2022-23	71355	29349	42006	14020	27986	-5152	22834
2023-24	70941	44472	26469	16678	9790	44081	53872

Source: Reserve Bank of India

Table 01 shows the yearly data on gross inflows, repatriation/disinvestment, direct investment in India, FDI from India (outward), net FDI, net portfolio investment, and a "Total" column for selected years (2002–03 to 2023–24). Gross inflows rose significantly over the period, with notable jumps around 2006–09 and a peak in 2020–21, reflecting increasing foreign investment interest but with cyclical fluctuations. The repatriation column rises over time, especially after 2010, indicating more outward flows and foreign divestments. This suggests a higher turnover and possibly more M&A exits or portfolio volatility. Net FDI (inflows minus repatriation) remains positive but varies; some years see sharp declines relative to gross inflows, implying that gross figures overstate the permanent capital retained by the country. Fluctuations in net portfolio investment, sometimes outweighing net FDI, highlight the importance of short-term capital in overall capital-account movements. The 2023–24 data show comparatively high repatriation and lower direct investment in India than earlier peaks, indicating a year with more exits or acquisitions that reduced net retained FDI. This table underpins the "evolution" theme, illustrating the trend of capital inflows and how their composition has changed over time (direct vs. portfolio; gross vs. net). This helps assess whether FDI has grown in scale and become more transient. Increased repatriation/disinvestment and volatile net FDI align with rising M&A activity and brownfield transactions (acquisitions and exits) rather than stable greenfield investments. This supports the study's assertion that a significant portion of FDI is brownfield. Years with spikes or declines can be linked to policy changes (such as liberalization steps, tax treaty amendments, or sectoral policy shifts) to examine whether industrial policies influence inflows or repatriation. If net FDI increasingly consists of acquisitions rather than new plants, it likely affects employment and technology transfer differently—M&A may lead to managerial restructuring and consolidation but not necessarily to large-scale greenfield job creation or local capacity development.

Table 02. Foreign Direct Investment Flows to India: Country-wise (US$ Billion)

Source/Industry	2020-21	2021-22	2022-23	2023-24	2024-25 (P)

Total FDI	59.6	58.8	46.0	44.4	50.0
Country-wise Inflows					
Singapore	17.4	15.9	17.2	11.8	15.0
Mauritius	5.6	9.4	6.1	8.0	8.3
US	13.8	10.5	6.0	5.0	5.5
Netherlands	2.8	4.6	2.5	4.9	4.6
UAE	4.2	1.0	3.4	2.9	4.4
Japan	1.9	1.5	1.8	3.2	2.5
Cyprus	0.4	0.2	1.3	0.8	1.2
Belgium	0.4	0.2	0.2	0.1	1.1
Switzerland	0.2	4.3	0.4	0.2	0.9
South Korea	0.4	0.3	0.3	0.4	0.8
France	1.3	0.3	0.4	0.4	0.8
UK	2.0	1.6	1.7	1.2	0.8
Germany	0.7	0.7	0.5	0.5	0.5
Cayman Islands	2.8	3.8	0.8	0.3	0.4
Luxembourg	0.3	0.5	0.5	0.4	0.4
Others	5.4	3.7	2.9	4.3	3.0

Source: RBI. Note: Includes FDI through approval, automatic, and acquisition of existing shares. P: The data are provisional.

Table 02 shows the total FDI by year (2020–21 to 2024–25P) and country-wise inflows for major source countries, including Singapore, Mauritius, the US, the Netherlands, the UAE, and Japan. Singapore, Mauritius, and the US are consistently important sources, with Singapore dominating the market for several years. Singapore's share fluctuates (e.g., 17.4 → 11.8 → 15.0). Mauritius shows variability (5.6 → 9.4 → 8.3), and the US share declines in recent years but remains significant. Entries such as Mauritius, the Cayman Islands, Cyprus, and Luxembourg highlight the ongoing role of conduit jurisdictions in channeling FDI into India. The UAE, the Netherlands, and some European countries contribute meaningfully, indicating the diversification of investor origins. Country-wise flow data help identify the source of capital, which is essential for understanding the type of FDI (e.g., portfolio or strategic, MNC-led greenfield, or financial acquisitions). For instance, large flows from Singapore and Mauritius often reflect regional holding structures and can obscure investors' actual origin. Inferring M&A versus greenfield investment: Sudden increases from specific countries in a given year can indicate

substantial M&A deals, as a single transaction can impact country totals. Cross-referencing large inflows with known deal announcements helps to identify M&A episodes. Heavy reliance on conduit jurisdictions suggests that tax treaties, bilateral investment treaties, and regulatory arbitrage influence FDI patterns, which are important considerations when recommending industrial or tax policy reforms. The source countries matter for technology and managerial transfer; FDI from advanced economies (such as the US, Japan, and the EU) is more likely to bring advanced technology and R&D linkages than purely financial flows routed through tax havens.

Table 3: Sector-wise/Industry-wise inflows FDI in India (US$ Billion)

Source/Industry	2020-21	2021-22	2022-23	2023-24	2024-25 (P)
Manufacturing	9.3	16.3	11.3	9.3	12.1
Financial Services	3.5	4.7	6.8	4.4	7.8
Electricity and Other Energy Generation, Distribution & Transmission	1.3	2.2	3.3	5.5	5.5
Communication Services	2.9	6.4	4.5	3.7	5.0
Retail & Wholesale Trade	3.9	5.1	5.3	4.1	4.4
Computer Services	23.8	9.0	5.6	4.9	4.0
Business Services	1.8	2.5	2.0	2.6	2.5
Transport	7.9	3.3	1.7	3.8	2.2
Construction	1.8	3.2	1.4	2.2	2.2
Miscellaneous Services	0.9	1.0	1.2	1.9	1.8
Restaurants and Hotels	0.3	0.7	0.2	0.4	1.3
Education, R&D	1.3	3.6	1.9	0.6	0.7
Real Estate	0.4	0.1	0.1	0.3	0.5
Mining	0.2	0.4	0.2	0.1	0.0
Trading	0.0	0.0	0.0	0.0	0.0
Others	0.2	0.4	0.5	0.7	0.1

Source: RBI. Note: Includes FDI through approval, automatic, and acquisition of existing share routes.

Table 03 presents a breakdown of FDI by sector (manufacturing, pharmaceuticals, IT, etc.). Sector-specific FDI data are crucial for assessing whether FDI supports manufacturing growth (industrialization) or primarily flows into services (which have different employment and export effects). Sectoral composition reveals whether FDI is going into high-tech, R&D-heavy sectors (which have more potential for technology transfer) or low-value services. Manufacturing greenfield projects usually generate more direct jobs than financial acquisitions in the services sector, and sectoral data helps estimate employment impacts. If FDI is concentrated in a few sectors, industrial policies can be adjusted (such as incentives, local supplier development, and skills training).

Results: Table 1: Trends in Foreign Direct Investment Inflows (2002–2024): An Analysis of RBI data shows that FDI inflows increased steadily over 20 years, from US$ 5.1 billion in 2002–03 to US$ 81.9 billion in 2020–21. However, net FDI inflows are volatile due to higher repatriation and disinvestment. In 2010–11, gross inflows reached US$ 36.0 billion, but net FDI was only US$ 11.8 billion after disinvestment. By 2023–24, gross inflows were US$ 70.9 billion, while net FDI declined to US$ 9.8 billion, indicating increased exits and profit repatriation. This suggests that while India attracts foreign capital, more is driven by transactions or short-term investments, consistent with brownfield investments and M&A activity. Portfolio flows fluctuate considerably, sometimes offsetting FDI gains and highlighting the volatility of the external financing environment in India. 2. Country-wise Distribution of FDI (2020–2025): Table 2 shows the concentration of inflows in a few jurisdictions in the US. Singapore leads, contributing US$ 11.8–17.4 billion annually as a regional hub for the pharmaceutical industry. Mauritius remains a major player, with inflows of US$ 5.6–9.4 billion, driven by treaty benefits and tax structuring. US inflows decline from US$13.8 billion in 2020–21 to US$5.5 billion in 2024–25. The Netherlands, UAE, and Japan show variable but increasing commitment. The dominance of conduit jurisdictions indicates that tax treaties and regulatory arbitrage influence India's FDI. Although the share of advanced economies has decreased, they are likely to continue to transfer technology. Available data suggest that services (IT, telecom, and finance) account for the largest share of FDI, reflecting India's strength in knowledge-based industries. Manufacturing inflows have stagnated, causing deindustrialization, with the industry's GDP share at 15–17 percent since liberalization. Pharmaceuticals and renewable energy attract FDI through M&A deals but remain modest compared to services. This explains why FDI has not led to broad employment growth: service inflows are capital-intensive, whereas manufacturing inflows are insufficient to generate large-scale jobs. Liberalization and automatic approvals have encouraged inflows; however, without conditions, investments remain financial or acquisition-driven. State-level infrastructure and regulatory differences influence outcomes, with

developed states attracting more Greenfield projects. Policy gaps in trade agreements have limited India's ability to leverage FDI for export competitiveness. FDI inflows have grown but have become volatile due to repatriation and disinvestment. Country-wise data show reliance on conduit jurisdictions, with declining contributions from advanced economies. The sectoral composition favors services over manufacturing, contributing to deindustrialization and limited employment. Industrial policies determine whether FDI and M&A lead to technology transfer and productivity gains; however, current frameworks have not fully realized these benefits.

Discussion: This section combines the findings from the literature review with those of this study to examine how FDI, M&A, and industrial policy shape India's industrial transformation. It links empirical patterns to study objectives, highlights the mechanisms behind foreign capital's influence on technology, employment, and exports, and draws policy insights. The time series shows an upward trend in gross FDI inflows over the past two decades, with significant annual fluctuations. While increasing inflows indicate growing investor interest, volatility and rising repatriation rates suggest that flows are often transient rather than long-term investments in Greenfield projects. This pattern supports the argument that India's FDI environment is increasingly dominated by brownfield projects and M&A activity, which can improve capital turnover without necessarily expanding the domestic productive capacity. Country-specific data reveal a heavy concentration in a few jurisdictions—particularly Singapore and Mauritius—highlighting the role of conduit jurisdictions in tax avoidance. This concentration complicates the interpretation of origin effects because the countries in which investments are recorded may not reflect the ultimate investors' origins, as conduit flows are often motivated by tax, treaty, or corporate-structuring incentives. Consequently, variations in origin suggest that policies and regulatory arbitrage significantly shape FDI patterns. The evidence, combined with the literature on premature deindustrialization, points to a disconnect: rising FDI has not led to a sustained increase in manufacturing's GDP share or widespread employment gains. Instead, services and capital-light industries absorbed more investments. This supports the idea that FDI composition is more critical to structural transformation than the overall volume. FDI from advanced-economy multinationals and strategic greenfield projects is likely to be the most effective for technology transfer, R&D collaboration, and skill development. Conversely, acquisition-driven inflows usually transfer ownership without necessarily embedding new production capabilities into the firm. The data showing increasing repatriation and country-specific spikes suggest that many inflows are market-seeking rather than capability-building. While M&A can improve efficiency through consolidation, these gains may come at the expense of workforce rationalization and layoffs. The observed pattern aligns with a scenario in

which M&A and brownfield investments enhance productivity but do not create net employment growth. Industrial policies, tax treaties, and incentives influence both the volume and quality of FDI. Policies that promote greenfield projects, local supplier development, and R&D collaborations are likely to generate positive spillovers. In contrast, policies that focus mainly on easing capital entry may attract financial inflows with limited developmental impacts. Although the sectoral table is not included, evidence suggests that services and high-value sectors—such as IT, telecom, and pharmaceuticals—receive a disproportionate share of FDI. This concentration explains why overall FDI growth has not translated into a broad manufacturing revival: the sectoral composition determines the employment intensity, export potential, and technological progress.

Conclusions: This study shows that Foreign Direct Investment, mergers and acquisitions, and industrial policy have shaped India's industrial trajectory, but their combined effect has been uneven. FDI inflows have grown significantly over the past two decades. However, rising repatriation and transaction-driven flows indicate more brownfield and acquisition activities than greenfield expansion. Country-of-record patterns reveal a concentration through conduit jurisdictions, complicating the interpretation of investor origin and motives. The evidence suggests a composition issue: capital alone has not led to manufacturing revival or employment gains because inflows are concentrated in services, financial structures, and acquisitions. When FDI is strategic, Greenfield, and connected to advanced-economy multinationals, the potential for technology transfer, R&D linkages, and productivity spillovers is higher. When inflows are acquisition-led or routed through tax havens, developmental spillovers are weaker and depend on post-deal commitments. Industrial policy plays a key mediating role. Policies focusing on capital entry without local linkage conditions typically attract financial- and market-seeking investments with limited structural impact. In contrast, targeted policy tools, such as state capacity for land and labor reforms, incentives for local supplier development, and conditional R&D or employment commitments, can direct FDI and M&A toward industrial upgrading and inclusive growth. The study's descriptive approach maps these trends but cannot establish causal links between FDI types, M&A activity, and outcomes such as productivity, employment, and export growth. Future research should combine deal- and firm-level data, leverage natural experiments and event studies, and perform state-level causal analyses to support precise policy formulations. India's experience shows that attracting foreign capital is necessary but insufficient for industrial transformation. The benefits depend on who invests, how they invest, and the policy environment that shapes post-investment behavior. Aligning incentives, enhancing transparency, and strengthening state capacity are essential to convert FDI and M&A into sustained gains in technology, jobs, and exports.

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