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EDITORIAL ANALYSIS

FDI Rebound: Counting the Rupees, Questioning Their Quality

BUSINESS STANDARD

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THE LIFT LINE

A headline FDI number tells you money arrived; it does not tell you whether it built a factory or merely bought a share, and for a country chasing jobs and technology that difference is the whole story.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

UNCTAD's World Investment Report 2026, released in early July, shows foreign direct investment inflows to India rising 44 per cent in 2025 to about $39 billion, lifting India to the 11th largest FDI recipient globally, up from 13th, even as the world moved through a cautious investment cycle. For the exam this is a GS3 problem in the mobilisation of external resources, and it teaches aspirants to look past the gross figure to the quality-of-capital question that decides whether FDI actually transforms an economy.

GS Paper 3: the mobilisation of resources; effects of liberalisation on the economy; investment models; and the role of external capital in growth and employment.

For **Prelims**, hold the anchors: UNCTAD's World Investment Report 2026 recorded India's FDI up 44 per cent to roughly $39 billion, ranking it 11th globally; FDI strength was seen in manufacturing, the digital economy and infrastructure; net FDI equals gross inflows minus repatriation (https://ujiyari.com/vocab/repatriation/), disinvestment and outward FDI; Bilateral Investment Treaties (BITs) are governed by India's Model BIT of 2016. For **Mains**, argue that greenfield (https://ujiyari.com/vocab/greenfield/), net and treaty-secured FDI is the capital that builds.

BACKGROUND AND CONTEXT

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Foreign direct investment is often treated as a single scoreboard number, but it hides crucial distinctions. Gross FDI is the total that flows in; net FDI subtracts repatriation of profits, the sale of existing investments and Indian firms' own outward investment. In recent years India's gross inflows have stayed robust while net FDI has at times fallen sharply, because repatriation and outward investment rose, a signal that the headline can move independently of what the economy retains.

The 2026 UNCTAD data, with a 44 per cent rise to $39 billion and a jump to 11th place, is genuinely encouraging against a subdued global backdrop. Strength in manufacturing, the digital economy and infrastructure is exactly the composition a growth economy wants. But the editorial's argument is that ranking and volume are necessary, not sufficient. What matters is whether the capital is greenfield, whether it stays net of repatriation, and whether India's treaty regime gives investors the certainty that long-horizon, capacity-building investment requires.

THE CORE ARGUMENT / ISSUE

Gross versus net: the number that stays

A rise in gross FDI is welcome, but if profit repatriation and disinvestment climb alongside, the net addition to the capital stock can be modest. Policymakers should track net FDI as the truer measure of external capital actually financing new capacity, and should read the $39 billion in that light rather than as a standalone triumph.

Greenfield versus brownfield: the capital that builds

Greenfield investment creates new plants, new capacity and new jobs; brownfield investment, through mergers and acquisitions, changes ownership of assets that already exist. Both bring capital, but only greenfield reliably adds productive capacity and employment. The strength in manufacturing and infrastructure in the 2026 data is promising precisely because these tend to be capacity-creating, and the quality question is whether that composition holds.

QUALITY DIMENSION	LOWER-VALUE FORM	HIGHER-VALUE FORM
Direction of flow	High repatriation, weak net FDI	Strong net FDI retained in economy
Type of entry	Brownfield M&A, ownership change	Greenfield, new capacity and jobs
Sector	Passive or speculative	Manufacturing, digital, infrastructure
Policy certainty	Weak treaty protection, disputes	Credible BITs and stable dispute resolution

Treaty certainty: the frame that attracts patient capital

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Long-horizon investors need predictable protection. India terminated many older Bilateral (https://ujiyari.com/vocab/bilateral/) Investment Treaties after adopting a more state-protective Model BIT in 2016, and negotiations on new treaties have been slow. Without a credible, balanced BIT regime and swift dispute resolution, India risks attracting shorter-term capital while deterring the patient, greenfield investment that builds factories and transfers technology. Ease of doing business reforms must be matched by investment-protection certainty.

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

Read FDI through a **quality filter, not just a quantity gauge**. For any inflow, ask three questions: does it survive netting for repatriation and disinvestment; does it create new capacity or merely transfer existing assets; and is it protected by a stable treaty and regulatory regime that invites it to stay and expand. A high gross number that fails these tests flatters the scoreboard without transforming the economy. The transferable rule: in external finance, the composition and durability of capital matter more than its headline volume.

THE DIAGRAM IN WORDS

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Global cautious cycle -> India FDI up 44% to $39bn, rank 11th (UNCTAD 2026) -> apply quality filter: net (minus repatriation) + greenfield (new capacity) + BIT-secured (patient capital) -> if quality high: jobs, technology, durable growth; if quality low: headline without transformation -> pair ease-of-doing-business with treaty certainty
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WAY FORWARD

1. **Track and target net, greenfield FDI.** Shift the policy focus from gross inflow rankings to net, capacity-creating investment as the real measure of success.
2. **Rebuild a credible treaty regime.** Conclude balanced Bilateral Investment Treaties and offer swift, predictable dispute resolution to attract patient capital.
3. **Deepen ease of doing business (https://ujiyari.com/terms/ease-of-doing-business/).** Sustain regulatory simplification, faster clearances and stable tax policy so that manufacturing and infrastructure investment converts intent into plants.
4. **Channel FDI to jobs and technology.** Use targeted incentives to steer inflows toward sectors that add employment and transfer technology, consolidating the promising 2026 composition.

PYQ LINKAGE AND PRACTICE

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UPSC has tested the role of FDI in growth, the effects of liberalisation, and the mobilisation of external resources. This editorial links those themes to the 2026 UNCTAD data and to the quality-of-capital debate.

Practice question: "The significance of India's rising FDI lies less in its ranking than in the quality of the capital it attracts." Critically examine with reference to net versus gross FDI, greenfield investment, and the role of bilateral investment treaties. (250 words, 15 marks)

Sources: Business Standard (https://www.business-standard.com/opinion)

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