

**INDIA'S EVOLVING FDI LANDSCAPE:
TENDENCIES, ROLE AND THE TASK OF MAKE-IN-INDIA**

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ABSTRACT

Foreign direct investment has become one of the clearest measures of how the world reads India's economy. Over the past decade, the country has moved from being a market that investors watched cautiously to one that few global portfolios can afford to ignore. This paper traces that shift and asks a fairly practical question: how far has the Make-in-India initiative, launched in September 2014, actually shaped the pattern of foreign capital entering the country? Using secondary data drawn from the Department for Promotion of Industry and Internal Trade (DPIIT), the Reserve Bank of India and UNCTAD's World Investment Report series, the study examines FDI flows across the pre-initiative and post-initiative periods, disaggregating them by sector, source country and destination state. The evidence points to a genuine expansion in absolute terms. Gross FDI inflows rose from USD 36.05 billion in 2013-14 to a provisional USD 81.04 billion in 2024-25, and the cumulative inflow of USD 748.78 billion between 2014 and 2025 was roughly 143 per cent higher than the total received in the preceding eleven years. Yet the composition of that capital tells a more complicated story. Services and computer software continue to absorb the largest share; manufacturing FDI has grown but has not decisively altered manufacturing's share of gross domestic product, and net FDI has weakened sharply as repatriation and outward investment have risen. The paper argues that Make-in-India has been more successful as an instrument of signalling and procedural liberalisation than as a structural transformation of India's investment composition, and that the gains of the next decade will depend less on headline caps and more on factor-market reform, logistics costs and regulatory predictability at the state level.

(Keywords: Foreign Direct Investment; Make in India; Manufacturing; Industrial Policy; Production Linked Incentive; Indian Economy)

Introduction

For much of the twentieth century India treated foreign capital with suspicion. The industrial licensing regime, restrictions under the Foreign Exchange Regulation Act of 1973 and a broad preference for import substitution left little room for foreign equity, and the small amounts that did enter were tightly conditioned. That framework broke down in 1991, when a balance of payments crisis forced a rethink of almost every assumption about how India would industrialise. The reforms of that year opened the door to automatic approval in a range of industries and set in motion a slow but continuous liberalisation that has never really been reversed, whichever government has been in office.

Three decades later the numbers look very different. India has received well over a trillion United States dollars in cumulative foreign direct investment since April 2000, and the annual figure has more than doubled in a little over a decade. The country now draws capital from 112 source economies compared with 89 in 2013-14, and foreign investors are present in almost every sector barring a short negative list covering lottery, gambling, chit funds, tobacco manufacturing, atomic energy and real estate trading.

The Make-in-India initiative, launched on 25 September 2014, sits at the centre of this recent phase. It was announced with an explicit set of ambitions: raise manufacturing's share of gross domestic product to 25 per cent, create a hundred million additional manufacturing jobs, and position India as a global manufacturing hub across twenty-five identified sectors. The programme was later reorganised as Make-in-India 2.0, covering twenty-seven sectors and working alongside complementary schemes such as the Production Linked Incentive programme, the National Infrastructure Pipeline, the PM GatiShakti National Master Plan and the National Single Window System.

Whether that ambition has been realised is a matter of some disagreement. Headline inflow figures are impressive and are cited frequently in official communication. Critics point out, with equal justification, that manufacturing's share of gross domestic product has not risen and that a substantial part of recent inflows has gone into software, services and digital platforms rather than into factories. There is also a newer concern that the gross figures conceal a weakening net position, as repatriation by foreign investors and outward investment by Indian firms have both accelerated.

This paper attempts to sit between the two positions rather than adopt either wholesale. It examines what the data actually show about the direction, composition and geography of foreign direct investment in India, and asks how much of the observed change can reasonably be attributed to the policy architecture built around Make in India.

2. Review of Literature

The literature on foreign direct investment in India divides broadly into three strands: work on the determinants of inflows, work on their developmental effects, and a more recent body of writing that evaluates Make-in-India specifically.

On determinants, Dunning's eclectic paradigm remains the standard analytical frame, distinguishing ownership, location and internalisation advantages as the conditions under which a firm chooses to produce abroad rather than export or license (Dunning, 1993). Applied to India, the location component has usually been traced to market size, labour cost and, more recently, the availability of technical skills. Chakraborty and Nunnenkamp (2008), using industry-level panel data, found that the growth effects of foreign investment in India were concentrated in manufacturing and were largely absent in the primary sector, a finding that has been repeatedly confirmed in later work.

On developmental effects, the evidence is mixed but leans positive where absorptive capacity exists. Borensztein, De Gregorio and Lee (1998) argued in an influential cross-country study that foreign investment raises growth only when the host country has crossed a minimum threshold of human capital. Alfaro and colleagues (2004) made a parallel argument for financial market development. Both conditions are relevant to India, where the wide variation in state-level institutional quality and human capital may explain why inflows cluster in a handful of states.

The Make-in-India literature is younger and more contested. Several studies find a statistically significant break in manufacturing FDI after 2014-15, though the magnitude reported varies with the sample period and the deflator used. Others emphasise that the initiative coincided with a global reallocation of supply chains away from China, particularly after 2018, and caution against attributing to domestic policy what may partly reflect external circumstance. Athukorala (2020) and related work on Asian production networks argue that participation in global value chains depends more on tariff structure and trade facilitation than on investment promotion, and note that India's average applied tariff rose during precisely the period in which Make-in-India was being promoted. Kathuria and Sharma (2023) point to a divergence between announced and realised investment under the incentive schemes, suggesting that disbursement bottlenecks matter more than headline commitments.

What emerges from this literature is a gap. Much of the existing work either studies aggregate inflows or evaluates a single scheme. Comparatively little of it looks at trend, sectoral composition, source concentration and state-level distribution together, and fewer studies still

3. Objectives of the Study

- ✓ To examine the trend and magnitude of foreign direct investment inflows into India during the pre and post Make-in-India periods.
- ✓ To analyse the sectoral composition of foreign direct investment and assess whether the manufacturing sector has gained relative weight since 2014-15.
- ✓ To study the geographical pattern of inflows in terms of source economies and recipient states.
- ✓ To evaluate the contribution of Make-in-India and its allied schemes to the observed investment pattern.
- ✓ To identify the structural constraints that continue to limit India's attractiveness as a manufacturing destination, and to suggest policy directions.

4. Research Methodology

4.1 Nature and Sources of Data

The study is analytical and descriptive in character and rests entirely on secondary data. The principal source is the quarterly and annual factsheet series published by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, which reports equity inflows by sector, country and state. Balance of payments data on net foreign direct investment, reinvested earnings, repatriation and outward investment are drawn from the Reserve Bank of India's Handbook of Statistics on the Indian Economy and its monthly bulletins. International comparative material is taken from UNCTAD's World Investment Report series. Supplementary material on policy and scheme performance is taken from Economic Survey volumes, Press Information Bureau releases and NITI Aayog publications.

4.2 Period of Study

The analysis covers the period from 2003-04 to 2025-26, with the sample divided at 2014-15 into a pre-initiative phase and a post-initiative phase. This division allows a comparison of eleven-year blocks on either side of the launch of Make in India. Figures for 2025-26 are provisional and are used with appropriate caution.

4.3 Tools of Analysis

The data are analysed using percentage shares, year-on-year growth rates, compound annual growth rates and simple comparisons of period averages. Sectoral and geographical concentration is examined through share analysis. Given the descriptive purpose of the study, no econometric estimation is attempted; the intention is to establish the pattern rather than to isolate a causal coefficient.

4.4 Limitations

Three limitations should be stated at the outset. First, a large share of inflows is routed through Singapore, Mauritius and the Netherlands, which means the reported source country often reflects the location of a holding vehicle rather than the ultimate beneficial owner, and the possibility of round-tripping cannot be excluded. Second, DPIIT figures are reported in both rupee and dollar terms, and exchange rate movement affects the comparison across years. Third, the study does not attempt to separate the effect of Make-in-India from the effect of concurrent global developments such as supply chain diversification, and its conclusions on attribution are therefore indicative rather than definitive.

5. Trends in Foreign Direct Investment: An Analysis

5.1 The Overall Trajectory

The most straightforward finding is that inflows have grown substantially. Total foreign direct investment, comprising equity, reinvested earnings and other capital, rose from USD 36.05 billion in 2013-14 to a provisional USD 81.04 billion in 2024-25, an increase of roughly 125 per cent. The eleven years from 2014-15 to 2024-25 brought in USD 748.78 billion against USD 308.38 billion in the eleven preceding years, an increase of about 143 per cent. Put differently, close to seventy per cent of all foreign direct investment India has received since April 2000 arrived in the last eleven years of that period.

Table 1: Total FDI Inflows into India, Selected Years (USD billion)

Financial Year	Total FDI Inflow	Year-on-Year Change (%)	Phase
2013-14	36.05	8.0	Pre-initiative
2014-15	45.15	25.2	Launch year
2016-17	60.22	8.7	Post-initiative
2019-20	74.39	20.0	Post-initiative
2020-21	81.97	10.2	Peak year
2021-22	84.83	3.5	Post-initiative
2022-23	71.35	-15.9	Post-initiative

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Financial Year	Total FDI Inflow	Year-on-Year Change (%)	Phase
2023-24	71.28	-0.1	Post-initiative
2024-25	81.04	14.0	Post-initiative

Source: Compiled from DPIIT FDI Factsheets and Press Information Bureau releases. Figures for 2024-25 are provisional.

The trajectory is not a smooth upward line. Inflows peaked in 2021-22 at USD 84.83 billion, fell for two consecutive years as global monetary tightening raised the cost of capital and investors retreated from emerging market exposure, and then recovered strongly in 2024-25. Provisional figures for 2025-26 indicate a continuation of that recovery. What the pattern suggests is that India's inflows, while structurally higher than a decade ago, remain sensitive to global liquidity conditions in much the same way as those of comparable emerging economies.

5.2 The Gross-Net Divergence

A more troubling feature appears once attention shifts from gross to net figures. Net foreign direct investment, which subtracts repatriation and disinvestment by foreign investors as well as outward investment by Indian firms, fell dramatically in 2024-25 to a figure of only a few hundred million dollars against roughly USD 10 billion in the previous year. The decline reflects two developments occurring simultaneously. Foreign investors, particularly private equity and venture funds that entered during the 2015 to 2021 period, have been exiting mature positions through public listings and secondary sales, which is in one sense a sign of a functioning exit market rather than of failure. At the same time, Indian corporates have expanded abroad at an unprecedented rate, acquiring assets in energy, pharmaceuticals, information technology and automotive components.

It would be a mistake to read the fall in net FDI as evidence that India has become unattractive; gross inflows in the same year rose by fourteen per cent. But it does mean that the contribution of foreign investment to India's external financing has become considerably smaller than the headline number implies, and that the country's current account is now more dependent on portfolio flows and remittances than the gross figure alone would suggest.

5.3 Sectoral Composition

Sectoral data reveal the central tension in the Make-in-India story. In 2024-25, the services sector was again the largest recipient of equity inflows with a share of about nineteen per cent, having grown by nearly forty-one per cent to USD 9.35 billion. Computer software and hardware followed with sixteen per cent, and trading with eight per cent. Manufacturing equity

inflows grew by eighteen per cent to USD 19.04 billion, which is a genuine improvement, but the sector's share of total inflows has not moved decisively upward.

Table 2: Sectoral Distribution of FDI Equity Inflows (USD million)

Sector	2024-25	2025-26 (P)	Cumulative (2000-2026)
Services (financial and non-financial)	9,347	10,010	128,853
Computer software and hardware	7,814	13,946	124,644
Trading	4,176	4,011	51,586
Non-conventional energy	4,012	3,019	24,918
Construction and infrastructure	2,245	2,574	38,737
Automobile industry	1,586	2,459	40,314
Drugs and pharmaceuticals	891	1,912	25,331

Source: Compiled from DPIIT FDI Factsheets. (P) denotes provisional.

Two readings of this table are possible. The pessimistic reading is that India continues to attract capital principally for its market and its skilled service workforce rather than for its production capability, and that the sectoral profile of 2024-25 is not fundamentally different from that of 2013-14. The more optimistic reading notes the sharp growth in pharmaceuticals, automobiles and non-conventional energy, all of which are manufacturing-linked and all of which correspond closely to sectors covered by the Production Linked Incentive scheme. Electronics assembly in particular has expanded rapidly, with mobile handset production shifting decisively toward domestic manufacture and exports of smartphones emerging as a significant line item in India's export basket.

The honest conclusion is that the composition is shifting, but slowly, and from a low base. Manufacturing's contribution to gross domestic product has hovered in the range of fifteen to seventeen per cent throughout the period and stood at roughly 15.9 per cent in 2023-24, against 16.7 per cent a decade earlier. The twenty-five per cent target has not merely been

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missed; the indicator has moved in the wrong direction. Foreign investment in manufacturing has grown in absolute terms while the sector as a whole has grown more slowly than services, which is a reminder that investment promotion cannot substitute for the broader determinants of industrial competitiveness.

5.4 Source Economies

India's foreign investment is highly concentrated by origin. Singapore accounted for roughly thirty per cent of equity inflows in 2024-25, Mauritius for seventeen per cent and the United States for eleven per cent. Cumulatively, Singapore and Mauritius together account for a very large share of everything India has received since 2000.

Table 3: Leading Source Economies of FDI Equity Inflows (USD million)

Source Economy	2024-25	2025-26 (P)	Cumulative (2000-2026)
Singapore	14,942	19,802	194,688
Mauritius	8,344	6,576	186,767
United States	5,457	11,171	81,821
Netherlands	4,620	3,374	56,676
United Arab Emirates	4,345	2,738	25,586
Japan	2,478	3,745	48,141
Cayman Islands	371	2,084	17,722

Source: Compiled from DPIIT FDI Factsheets. (P) denotes provisional.

These figures require careful interpretation. Singapore and Mauritius are conduit jurisdictions, and the capital passing through them originates in the United States, Europe, West Asia and, in some cases, in India itself. The renegotiation of the India-Mauritius double taxation avoidance agreement in 2016 and the subsequent amendment of the Singapore treaty reduced the tax advantage of routing through these jurisdictions, and the gradual decline in the Mauritius share since then is consistent with that change. The more meaningful signal in Table 3 is the doubling of direct inflows from the United States and the steady growth in Japanese investment, both of which are associated with real operational presence rather than holding structures. The rise in United Arab Emirates investment following the Comprehensive Economic Partnership Agreement of 2022 is a further example of trade agreements shaping investment geography.

5.5 State-Level Distribution

Foreign investment in India is geographically lopsided. Maharashtra alone received about thirty-nine per cent of equity inflows in 2024-25, followed by Karnataka at thirteen per cent and Delhi at twelve per cent. Gujarat, Tamil Nadu and Haryana form a second tier. Together, six states and union territories absorb the overwhelming majority of inflows, while the eastern and north-eastern states receive almost nothing.

Table 4: Leading Recipient States of FDI Equity Inflows (USD million)

State / Union Territory	2024-25	2025-26 (P)	Cumulative
Maharashtra	19,589	18,418	107,094
Karnataka	6,619	12,939	70,589
Delhi	6,091	6,182	43,989
Gujarat	5,711	5,713	50,626
Tamil Nadu	3,681	4,724	19,343
Haryana	3,147	4,526	17,403

Source: Compiled from DPIIT FDI Factsheets. (P) denotes provisional.

This concentration is not accidental. It follows the location of ports, industrial corridors, financial infrastructure and, above all, the quality of state-level administration. States that reformed land acquisition procedures, digitised approvals and maintained stable industrial policy across changes of government have attracted disproportionate investment. The near doubling of Karnataka's inflow, driven largely by global capability centres and electronics, and the emergence of Rajasthan and Uttar Pradesh as fast-growing destinations, suggest that the map is not entirely fixed. But the broad pattern of concentration has persisted through the entire Make-in-India period, and it means that the initiative's employment objectives are being pursued in the states that least need them.

6. Make-in-India: Policy Architecture and Assessment

6.1 The Policy Instruments

Make-in-India was never a single scheme with a single budget line. It is better understood as an umbrella under which a series of distinct interventions were assembled over a decade.

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The first was liberalisation of sectoral caps. Between 2014 and 2025 the government

raised the permitted foreign holding in defence manufacturing to 74 per cent under the automatic route with higher limits permitted on a case-by-case basis, opened railway infrastructure and construction development fully, permitted 100 per cent foreign investment in coal mining and associated infrastructure, in contract manufacturing and in insurance intermediaries, and progressively raised the insurance cap from 26 to 49 to 74 per cent and subsequently to 100 per cent under the automatic route. Space, previously closed, was opened to foreign participation in satellite manufacturing and launch services in 2024. As matters stand, most sectors permit 100 per cent foreign investment through the automatic route, with government approval confined to a short list.

The second instrument was procedural. The Goods and Services Tax replaced a fragmented indirect tax structure in 2017. The Insolvency and Bankruptcy Code of 2016 gave creditors a workable exit mechanism, which matters to investors as much as entry rules do. The corporate tax rate was reduced in 2019 to 22 per cent for existing companies and to 15 per cent for new manufacturing companies, one of the lowest rates in Asia. The National Single Window System consolidated approvals, and PM GatiShakti attempted to coordinate infrastructure planning across ministries.

The third instrument, and the most directly targeted at manufacturing, was the Production Linked Incentive scheme announced from 2020 onward and extended across fourteen sectors including electronics, pharmaceuticals, automobiles and auto components, telecom, textiles, food processing, solar modules, advanced chemistry cell batteries and white goods. Unlike earlier subsidy regimes, the incentive is paid on incremental sales rather than on capital deployed, which shifts risk toward the firm and makes disbursement conditional on realised output.

6.2 What Has Worked? Three claims can be made with reasonable confidence:

Electronics manufacturing has been transformed. India assembled a small fraction of the mobile handsets it consumed in 2014 and now manufactures the overwhelming majority domestically, with smartphone exports becoming one of the fastest-growing categories in the export basket. Contract manufacturers serving global brands have established substantial operations in Tamil Nadu, Karnataka and Uttar Pradesh. This is the clearest instance of a targeted incentive producing a measurable structural change.

Defence and aerospace have moved from near-total import dependence toward a genuine domestic supply base, assisted by the raised foreign investment cap, offset obligations and the negative import lists issued by the Ministry of Defence. Defence exports, negligible a decade ago, have risen to a significant annual figure.

The regulatory experience of investing has improved materially. Whatever the debate about outcomes, the process of incorporating a company, obtaining approvals and repatriating profits is faster and more predictable than it was in 2014, and the widening of the source base from 89 to 112 economies suggests that this improvement is being noticed by investors who previously found India too difficult to enter.

6.3 What Has Not

The headline target has clearly not been met. Manufacturing's share of gross domestic product has not risen toward 25 per cent and remains close to 16 per cent. The hundred million manufacturing jobs have not materialised; employment growth in organised manufacturing has been modest and much of the expansion in electronics assembly is relatively low value-added work at the final stage of a chain whose components are still largely imported.

Import dependence in critical inputs has in some cases deepened rather than eased. Assembly-led growth raises the import bill for components even as it raises exports of finished goods, and the net value addition captured domestically remains low in several of the sectors that report the strongest headline growth. Semiconductors, display panels and advanced battery chemistry remain areas where India is at the beginning rather than the middle of the journey.

Disbursement under the incentive schemes has lagged behind announcements. Sanctioned amounts have consistently exceeded actual payouts, partly because of stringent eligibility thresholds and partly because verification of incremental sales has proved administratively slow. Several participants in the textiles and solar schemes have failed to meet investment milestones, and the government has quietly allowed some sub-schemes to lapse.

Finally, the factor markets that determine industrial competitiveness have proved resistant to reform. The four labour codes consolidating twenty-nine central laws were passed between 2019 and 2020, but their implementation has been repeatedly deferred pending the framing of state rules. Land acquisition remains slow and expensive. Logistics costs, though falling, remain high relative to competitor economies. None of these is within the remit of an investment promotion programme, which is precisely the point: Make-in-India could change the terms on which capital enters, but not the conditions under which it produces.

7. Challenges and Emerging Concerns

- Concentration risk. Both the source and the destination of inflows are heavily concentrated, leaving India exposed to policy or tax changes in a small number of jurisdictions and reinforcing regional inequality within the country.
- The gross-net gap. Rising repatriation and outward investment have reduced net FDI to a fraction of its earlier level, weakening the contribution of foreign investment to external account stability.

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- ~~Tariff policy working against Value chain integration. Applied tariffs on intermediate goods have risen over the period, which raises the cost of participating in production networks that rely on cross-border movement of components.~~
- Regulatory unpredictability. Retrospective taxation, though formally abandoned in 2021, left a reputational cost, and episodic changes to e-commerce and data rules continue to unsettle investors in the digital economy.
 - Global competition for relocation. Vietnam, Mexico, Indonesia and Thailand are competing for the same supply chain diversification, often with lower logistics costs, simpler labour regimes and deeper existing trade agreements.
 - Skill mismatch. The expansion of assembly operations has revealed a shortage of mid-level technical skills, particularly in precision engineering, industrial maintenance and quality assurance.

8. Findings: The analysis yields the following principal findings:

- ✓ Foreign direct investment into India has expanded substantially, with cumulative inflows in the eleven years after 2014 exceeding those of the preceding eleven years by about 143 per cent, and the annual figure rising from USD 36.05 billion in 2013-14 to USD 81.04 billion in 2024-25.
- ✓ The sectoral composition has shifted only marginally in favour of manufacturing. Services and computer software together still account for a larger share than all manufacturing sectors combined, though pharmaceuticals, automobiles and renewable energy show strong recent growth.
- ✓ Manufacturing's share of gross domestic product has not increased and stands close to sixteen per cent, well short of the twenty-five per cent target.
- ✓ Inflows are concentrated in a small number of source economies, two of which are conduit jurisdictions, and in a small number of relatively prosperous states.
- ✓ Net foreign direct investment has declined sharply because of higher repatriation and rising outward investment, even as gross inflows have grown.
- ✓ Sector-specific incentives, particularly in electronics and defence, have produced measurable structural change, indicating that targeted instruments have outperformed general promotion.

9. Policy Suggestions

- ❖ Several directions follow from the findings, and they are deliberately framed as continuations of the existing approach rather than as departures from it.
- ❖ Deepen rather than widen. The evidence suggests that targeted, sector-specific instruments have worked better than broad promotion. Extending the incentive logic further up the value chain, into components, materials and capital goods rather than final assembly, would raise domestic value addition, which is where the current model is weakest.

- ❖ Address the tariff structure. Duties on intermediate inputs should be reviewed and rationalised, since a manufacturing strategy built on integration with global production networks is difficult to reconcile with rising input tariffs. Concluding the pending free trade agreements would serve the same purpose.
- ❖ Complete the factor market reforms. Notifying the labour codes with state rules, simplifying land aggregation through industrial land banks, and continuing the logistics cost reduction under GatiShakti would address the constraints that lie beyond the reach of investment policy but determine its results.
- ❖ Broaden the geography. A deliberate effort to route investment toward eastern and central India, through infrastructure investment and state capacity building rather than through fiscal concessions alone, would reduce both regional inequality and the concentration risk identified above.
- ❖ Improve measurement and transparency. Publishing beneficial ownership data alongside source country figures, and reporting net as well as gross inflows in headline communication, would give policymakers and researchers a clearer picture and reduce the gap between official narrative and analytical reality.

10. Conclusion

India's foreign direct investment landscape has changed considerably over the past decade, and the change is real rather than rhetorical. The volume of capital entering the country has roughly doubled, the number of source economies has expanded, most sectors are now open to full foreign ownership through the automatic route, and the administrative experience of investing has improved in ways that were not obvious a decade ago. Make-in-India can reasonably claim a share of the credit for this, particularly for the signalling effect of a coherent, sustained and internationally communicated industrial narrative, and for the procedural liberalisation that accompanied it.

At the same time, the initiative has not achieved what it set out to achieve. Manufacturing's share of national output has not risen, employment in the sector has grown slowly, and the composition of foreign investment continues to favour services and software over production. The recent decline in net inflows adds a further note of caution. What the record suggests is that investment promotion, however well designed, cannot compensate for constraints in land, labour, logistics and tariff policy that determine whether a firm can produce competitively once it has arrived.

The more useful conclusion is therefore not that Make-in-India succeeded or failed, but that it did the part of the job that policy of its type can do. The signalling worked; the caps were raised; the process was simplified; the targeted schemes in electronics and defence delivered visible change. What remains is the harder and less visible work of factor market reform and

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 state capacity, and it is on that work, rather than on further liberalisation of entry rules, that the next decade of India's investment story will depend.

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