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The foreign direct investment we need is not the FDI India counts

The country must earn more dollars in defence of the rupee. Since what gets measured gets managed, let's rejig FDI statistics

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As the rupee depreciates, India's foreign investment numbers have come into the limelight. The focus has been net foreign direct investment (FDI), down from nearly $44 billion in 2020-21 to under $1 billion in 2024-25, even as gross inflows touched a record $94.5 billion. Much of that gap is simply private equity and venture funds harvesting old investments through India's buoyant market for public share offerings. Exits working as they should is not a crisis. The issue here, though, is a different one: focusing on FDI that matters.

India reports FDI as an undifferentiated number, lumping together a private-equity cheque that might go towards buying a promoter's stake in his company, say, with Foxconn investing to create more than 50,000 new jobs at an iPhone campus. These are radically different kinds of capital. Private equity and venture funds enter with an exit already priced in: their mandate is to sell within three to seven years and send the proceeds home. That capital is welcome. It finances startups and deepens our capital markets. But it is temporary by design, closer to medium-term foreign portfolio investment and secondary market purchases than to direct investment in commercial ventures.

Treating all of it as one number obscures the key question that matters for jobs, exports and the rupee: how much foreign investment is building manufacturing capacity, and how much of that capacity serves global markets rather than just India's own? To what extent is the complex know-how needed for manufacturing globally competitive products being acquired and mastered within the country?

As we construct answers from proxy data, the picture is sobering. Of the roughly $700 billion of gross FDI India received over the past decade, manufacturing accounted for only about $165 billion—or 24%—against 55-83% of Vietnam's inflows in any given year. Export-oriented production (like Foxconn campuses, Samsung's Noida plant and Micron's Sanand unit) accounts for just 10-20% of manufacturing FDI. The output side confirms this: foreign-invested firms produce 71-76% of Vietnam's exports and 60-65% of Mexico's, and produced 58% of China's at its 2005 peak. In India, the best estimate is 8-15%.

India's FDI is overwhelmingly aimed at selling goods and services in the Indian market, not to manufacture here for exports. Both are welcome. But only the latter earns dollars, absorbs workers at scale and structurally defends the currency.

Some recent examples show what is possible. Apple's decision to anchor its supplier ecosystem in India turned smartphones into the country's largest export item—worth over $25 billion a year through Foxconn, Tata Electronics and Pegatron. One global value chain, one anchor decision, and India acquired an export engine that did not exist a decade ago. Likewise, Taiwan's Powerchip Semiconductor Manufacturing Corporation (PSMC) is in partnership with Tata Electronics to set up India's first chip fabrication facility in Dholera, Gujarat, a signal early success for India's Semicon Mission.

How can we make such successes cascade across the economy?

First, what gets measured gets managed. India should report manufacturing FDI as a distinct headline figure, split into export-oriented and domestic-market investment; report private equity and venture capital flows separately from durable direct investment; and publish the share of national exports produced by foreign firms. China, Vietnam and Mexico publish these statistics as a matter of course.

Second, build the machinery to ramp up the numbers: a permanent global value chain (GVC) task force mandated to land 30 anchor companies, reporting to the Prime Minister's Office and with the ability to coordinate across ministries as well as a hotline to chief ministers. GVCs are controlled by perhaps 200 firms. India should pursue the 30 most consequential, deal by deal; for example Samsung in electronics; LG Energy in batteries; Airbus and Safran in aerospace; Nike and Adidas in footwear; Dell, HP and Acer in IT hardware; BASF in chemicals; Stanley Black & Decker in power tools.

Winning an anchor means solving that company's specific problems faster than Vietnam or Thailand would and even resolving issues across the Centre and states—land ready to build on, a customs bottleneck or component duty, visas for engineers or a package to cover relocation cost. Vietnam's prime-ministerial working groups close deals this way. The task force should ideally be led by a retired civil servant with convening power, own a named target list and be judged against new statistics annually.

In the quest for FDI, the effort must tilt decisively toward East Asia and Europe. East Asia is where export-platform capital actually lives. But the asymmetry is stark: South Korea has invested $6.9 billion in India against $92 billion in Vietnam; Taiwan's 228 companies in India are a rounding error; Japan's 1,434 firms in India have not grown since 2018 and are an order of magnitude lower than the number operating in China (13,034).

In the face of China Shock 2.0, Japan, South Korea and Taiwan are all looking to diversify. The same applies to Europe. In addition, they are all ageing fast. Shrinking workforces are pushing their manufacturers to place production and increasingly engineering in younger economies. India is the rare candidate that offers scale, youth and engineering talent—a three-in-one package. The bargain India should offer these economies is therefore explicit: access to the world's fastest-growing large market in exchange for using India as a base to manufacture for the world, with anchor-plus-supplier-cluster packages.

As we formulate our look East strategy, China cannot be ignored either. Like it or not, China will be one of the largest sources of manufacturing FDI over the next decade. India should negotiate the entry of Chinese manufacturers on clear terms: bring the technology, build in India, export from India. The deal? Market access in exchange for capability transfer and export commitments through joint ventures where control matters.

Thirty anchors, honestly counted, at even half of Apple's demonstrated trajectory would come close to doubling India's merchandise exports within a decade—with high-wage jobs, supplier ecosystems across a dozen states and a rupee defended by earnings rather than intervention.