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India attracts capital. Now it must build what the world pays royalties for

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Synopsis
India has emerged as a major investment destination, but much of the value generated by foreign companies still flows overseas through dividends, royalties and intellectual property payments. The column argues that India must move beyond being a manufacturing and consumption base by building globally competitive brands, proprietary technology and Indian-owned intellectual property.

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India's next economic challenge is to move from creating value for foreign-owned brands and technologies to building and owning globally competitive brands and intellectual property. (Representative image)

India has spent a decade becoming one of the world's most attractive investment destinations, with gross FDI inflows touching $81 bn in FY25. Yet, beneath the headline numbers sits an uncomfortable question: how much of the value created in India does India keep?

Of every ₹100 of profit generated by an MNC in India, only about ₹56 stays here. No other large emerging economy performs this poorly. China keeps 91%, Indonesia 96%, and Brazil 88%. Between FY23 and FY26, dividend remittances totalled $118.9 bn, and royalty and IP payments another $46.6 bn; total outflows reached $344.4 bn against fresh equity inflows of $230.6 bn. This is roughly $1.50 leaving for every dollar that came in. On IP alone, India runs a net deficit of about $14.5 bn a year.

The plain truth is, in the global economy, India works for wages, while others earn royalties. Indian labour, factories and consumers generate enormous value. But assets that command a premium - brands, patents, platforms, proprietary technology - are owned elsewhere.

Take the India-South Korea relationship. 15 yrs after CEPA, India's trade deficit with South Korea has tripled, going past $15 bn. Samsung's royalty payments to its parent company jumped 50% in FY24 alone. Hyundai's record Indian IPO transferred proceeds to Seoul. LG's Indian subsidiary now commands a market value exceeding its Korean parent. India's market created enterprise value. But ownership, brand and technology sit in South Korea.

The instinctive response is to blame the foreign investor. The right response is to look in the mirror. Why, 35 yrs into liberalisation, are Indian firms largely absent from the global roster of brands, platforms and patent-holders? Where is India's Samsung?

Others have made this leap. China's transition is the most instructive, since it happened within the last 15 yrs. In 2010, China was the world's assembly line. Today BYD outsells Tesla, Xiaomi is a top-3 smartphone brand, DJI controls roughly 70% of the global drone market, Huawei holds the largest 5G patent portfolio, and China has led the world in international patent filings since 2019. The assembly line did not disappear. It became the launchpad for owned brands and owned IP.

That is the crux for Indian enterprise: brand and IP are not a diversification. They are the logical next stage of the journey - from exporting effort to owning outcomes. And the heavy lifting belongs to the private sector. India spends 0.64% of GDP on R&D against South Korea's roughly 5%, but the sharper embarrassment is the composition: barely a third of it is private, against roughly three-quarters in China, South Korea and the US. Most large Indian firms spend under 1% of revenue on research and treat brand-building abroad as a cost rather than an asset.

Why has corporate India settled for so little? Part of the answer lies in an unsaid bargain struck long ago. Historically, Indian industry has cried for support, and GoI has obliged - with tariff walls, non-tariff barriers and preferential treatment at home. For some sectors, for some period, this was justified; infant industries do need shelter. But the shelter became a habit. And it rested on a flattering illusion: that our large population is a large market. It is not, yet. In most categories, India accounts for barely 2-3% of global demand. A firm optimised for a protected 3% will never build the scale, quality or brand needed to win the other 97%.

Japan and South Korea offered their companies generous support too - cheap credit, licences, state backing. But the support came with a ruthless condition: face the global market test. Korean chaebols received subsidies against export targets: miss them, and the taps closed. Japan's champions were pushed into US and European markets within years of their founding.

This suggests the most important reform: make support conditional and time-bound. Every protective tariff, PLI allocation and procurement preference should carry a sunset clause tied to export performance and Indian-owned IP creation. Reward firms that win abroad, not firms that lobby at home. Alongside, 4 supporting measures:

Restore 200% weighted R&D deduction phased out by 2020, even as China made its own super-deduction permanent.

Widen Section 115BBF patent box beyond patents to designs and software created in India.

Extend design-linked incentive beyond semiconductors, so incentives pay for Indian-owned IP, not just Indian output.

Fix the plumbing - patent pendency measured in years, weak enforcement, slow commercial courts - which quietly taxes every rupee invested in intangibles.

India has proved it can create value at scale. It's time to compete for royalties.

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