

“US Trade Agreements as a Catalyst for FDI Inflows in India: An Analytical Study”

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Abstract

Geopolitical alignments and an increasing proportion of services in global FDI are driving a structural shift of the global FDI landscape (Casella et al., 2024). With the G20-Emerging Market (G20-EM) countries' share of worldwide FDI outflows rising from 9.7% in 2009 to 16.5% in 2023; EMEs are becoming a significant source of foreign investment.

India's foreign investment has grown dramatically in line with these trends, especially in the post-pandemic era. A trend towards developed economies has also been observed in India's outbound investment, with the average share increasing to 51.1% between 2019 and 2024.

Foreign Direct Investment (FDI) is a critical driver of economic growth for developing and developed economies alike. It involves cross-border investment where an investor acquires lasting interest (usually $\geq 10\%$ equity) in a company abroad, bringing capital, technology, and managerial expertise. FDI plays a significant role in international trade, job creation, and technology transfer.

India-US officially reached a significant trade deal, both countries agreed on significantly reducing reciprocal tariffs on Indian goods from 50% to 18%. This agreement aims to boost bilateral trade. Read more about to know the key updates, significance and challenges ahead.

Key Words -India & US finalized a trade deal, and FDI.

Introduction

The globalized nature of today's business environment has compelled companies to carefully deliberate and strategically choose between different modes of expanding operations internationally, with foreign direct investment (FDI) and exports standing out as possible avenues. Understanding the factors influencing the selection between these two approaches is paramount for scholars and practitioners in international economics, finance and business.

Foreign Direct Investment (FDI) and trade openness have long been recognized as pivotal determinants of economic growth and development for nations across the globe. The dynamic relationship between these two factors and their impact on economic progress has been a subject of considerable interest among scholars, policymakers, and investors. This research seeks to shed light on the intricate dynamics between FDI, trade openness, and economic growth with a focus on the Indian context. India, the world's second-most populous country and one of the fastest-growing economies, has undergone significant economic transformations in recent decades. Driven by a series of policy reforms and a growing appetite for global integration, India has become a prominent destination for FDI and has actively pursued trade liberalization initiatives. As a result, India presents a compelling case study for examining how FDI and trade openness have influenced its economic growth trajectory.

Research Objectives

- To examine global and India-specific FDI trends.
- To analyse recent American FDI deals with India and policy frameworks influencing them as opportunity.

- To assess the impacts of FDI on India’s economic growth and bilateral relations with the US as benefits of the deal.
- To explore future policy recommendations.

Literature review

A traditional approach for studies of FDI is the eclectic OLI (Ownership, Localization and Internationalization) framework developed by Dunning. The OLI framework captures three essential ideas about FDI.

The first is the ownership advantage. The idea is that a firm owns something that is useful in other countries; it may be a production recipe, a technology, a brand, or something else. In the model presented in this paper, the ownership advantage is represented by the demand function that firms face for their specific product and the firms’ productivities.

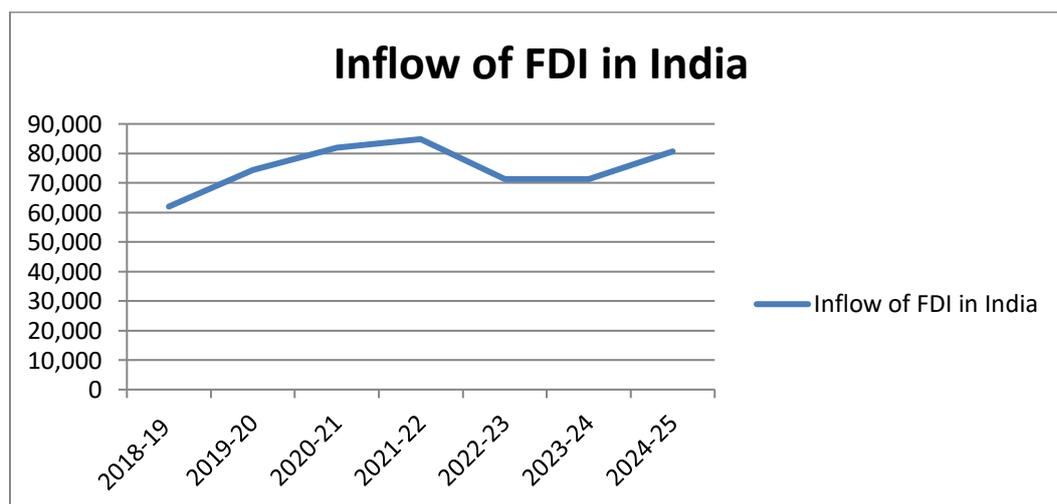
The second is the countries’ advantages in terms of localization. Firms that establish production in a foreign country find that particular location more attractive than locating production in another country. Thus, the country has a location advantage. The location advantage can be a large market (for market-seeking FDI). The advantage can also be low production costs due to technology or resource endowments (e.g. low wages). In the modelling exercise that follows, location advantages are both market access and cost advantages.

DATA DISCRPTION- FINANCIAL YEAR-WISE FDI INFLOW DATA:

Table: 1 Year-wise FDI Inflows in India (Amount in USD Million)-

S.No.	Year	Inflow of FDI in India
1	2018-19	62,001
2	2019-20	74,391
3	2020-21	81,973
4	2021-22	84,835
5	2022-23	71,355
6	2023-24	71,279
7	2024-25	80,615
8	2025-26	764,062 (Till Sep.2025)

Source- RBI Report 2025

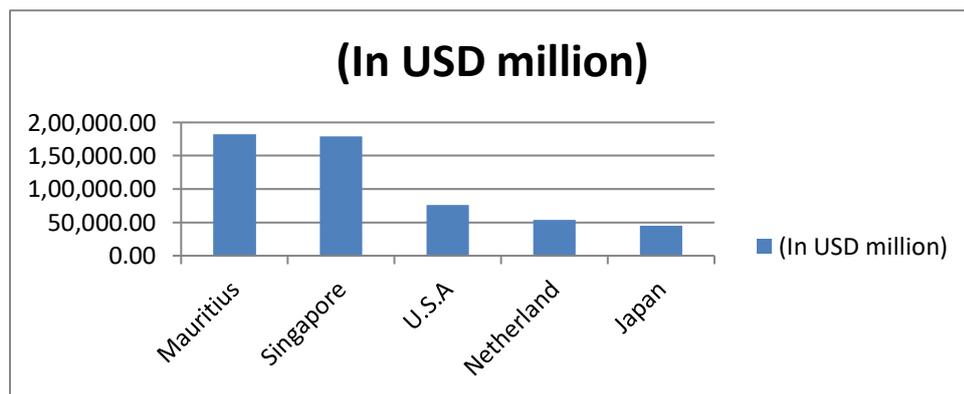


Year FDI Inflows (Amount in USD Million) Annual report (RBI) The year-wise data on Foreign Direct Investment (FDI) inflows into India from 2018–19 to 2024–25 reflects a clear upward trajectory in the initial years, followed by a period of fluctuation. Beginning at a modest level of USD Million 62,001 in 2018–19, FDI inflows saw a consistent rise over the next several years. This upward momentum can be attributed to India's liberalized FDI policies, structural reforms, and the government's efforts to improve the ease of doing business. By 2020–21, FDI inflows had reached a peak of 81,973 marking a significant growth and highlighting India's increasing attractiveness as a global investment destination. However, post-2020, the trend indicates a gradual decline in FDI inflows. While the immediate years following the COVID-19 pandemic still recorded high inflows, the figures began to fall steadily, dropping to 84,835 in 2024–25 and further to 80,615 in 2023–24. This decline may reflect shifting global economic priorities, supply chain disruptions, inflationary pressures, and geopolitical uncertainties affecting investor sentiment. Despite this recent downturn, the overall comparison with the base year shows that India has maintained a significantly higher level of FDI inflows over the decade, underscoring its sustained relevance in the global investment landscape.

HIGHEST FIVE COUNTRY-WISE FDI EQUITY INFLOW FROM APRIL 2000 TO JUNE 2025

Amount of Foreign Direct Investment Equity inflow

S.No.	COUNTRY	(In USD million)
1	Mauritius	182,271.94
2	Singapore	179,484.31
3	U.S.A	76,260.86
4	Netherland	53,969.79
5	Japan	44,947.08



The analysis of country-wise FDI inflows into India over the past decade reveals significant shifts in global investor participation and changing economic dynamics. Mauritius, historically a dominant FDI source due to tax advantages, saw fluctuations over the period. It peaked at with high amount of 182,271.94 In USD million Singapore retained its position as the top contributor, reflecting its strong economic ties with India and favourable tax treaties. As it is Singapore 179,484.31 U.S.A, The United States demonstrated a remarkable surge, especially after 2018–19 and Total of in USD million 76,260.86 and largely due to India’s expanding digital economy, tech collaborations, and increasing bilateral cooperation. Though inflows declined thereafter, the U.S. remained a key investor. The Netherlands showed moderate but stable inflows, with noticeable growth from 2018–19 onwards, reaching 53, 969.79,. Japan’s inflows ranged, with a 44,947.08 decline potentially due to a shifting focus towards other Asian markets.

Countries like Saudi Arabia Canada Belgium Hong Kong Spain South Korea Luxembourg France Switzerland Cyprus Germany are also has huge contribution in our FDI.

FDI Benefits are for Jobs and “Make in India” with Low net retention weakens support for new plants, supplier ecosystems, and technology transfer. External stability by foreign direct investment is “patient capital.” Lower net foreign direct investment reduces the cushion for the current account and can limit monetary policy room in shocks. Quality v/s quantity is the Greenfield manufacturing has a larger multiplier than asset trades or short-term deals.

FDI in India — Recent Statistics & Patterns

India has witnessed significant growth in FDI inflows, reflecting investor confidence and stronger integration into global supply chains:

- FDI inflows into India increased by 73% to \$47 billion in 2025 according to UNCTAD.
- Cumulative FDI in FY26 H1 (April–September 2025) was \$35.2 billion, an 18% rise year-on-year.
- India received gross FDI of approx \$81 billion in FY25, led by services, IT, and manufacturing.

Sector & Regional Highlights

- Services and IT sectors have been top FDI recipients.
- States like Maharashtra and Karnataka accounted for ~51% of total FDI in FY25.
- Recent policy changes include raising FDI caps in the insurance sector to 100%.

Latest Deal-

US President Donald Trump announced that he has agreed to a trade deal with India that cuts US reciprocal tariffs on Indian goods from 25 per cent to 18 per cent, while New Delhi is set to reduce its tariffs and non-tariff barriers on American products, potentially to zero. In trade terms, this language typically signifies an in-principle commitment to lower or phase out duties on selected US products rather than an immediate elimination of all import duties. Non-tariff barriers encompass various restrictions such as licencing rules, quotas, certification requirements, local sourcing norms, and regulatory approvals that can limit market access.

About Trade Deal

- **Tariff Reduction:** The U.S. has reduced the "reciprocal tariff" from 25% to 18%.
- **Removal of Penalties:** A secondary 25% "penalty" tariff, previously imposed due to India’s purchase of Russian oil, has been completely scrapped.
- **Energy Pivot:** India has agreed to stop the purchase of Russian crude oil, opting instead to increase imports from the U.S. and potentially Venezuela.
- **Purchase Commitments:** Reports suggest India has committed to buying over \$500 billion worth of American goods (energy, technology, and agriculture) over the coming years.
- **The India-US Trade deal arrives at a critical juncture where India is competing with other Asian manufacturing hubs by securing an 18% US traffic. India now holds a competitive advantage over several regional rivals such as Pakistan with 19% US traffic Rate, Indonesia (19%), Vietnam(20%) Bangladesh(20%) and China(around 34%).**

The most to specific commodity groups that dominate the trade flow.

Trade Flow	Key Commodity Groups	Share of Trade Segment in approx.
Exports (India to US)	Electronics & Electricals	15.8%
	Pharmaceutical Products	14.0%

	Gems, Pearls & Precious Stones	13.0%
	Textiles & Readymade Garments	8.8%
	Machinery & Boilers	7.8%
Imports (US to India)	Mineral Fuels & Oils	31.5%
	Industrial Machinery	14.8%
	Optical & Medical Apparatus	6.0%
	Precious Stones & Metals	5.8%
	Aircraft & Spacecraft Parts	2.0%

Significance of a Deal-

The deal holds multi-layered significance for the Indian economy and its global share as

- **Boost Export:** Labor-intensive industries like textiles, leather, gems and jewelry, and seafood are the primary beneficiaries. With the 50% tariff wall gone, Indian products will become significantly cheaper for American consumers, likely leading to a surge in order volumes and better profit margins for Indian MSMEs.
- **Market Stability and Investor Confidence:** The removal of the "tariff overhang" provides the predictability that global investors crave. Stock markets in India responded immediately, with sectors like specialty chemicals and auto ancillaries seeing sharp rallies as the deal reduces the risk of future sudden sanctions.
- **Energy Security:** By pivoting away from Russian oil to American and Venezuelan sources, India is aligning its energy security with its strategic trade interests.
- **Supply Chain Resilience:** As the "China Plus One" strategy continues to evolve, this deal makes India a more attractive destination for American companies looking to diversify their manufacturing bases away from China.
- **Geopolitics:** The deal helps India stabilize relations with Washington while positioning India as a key partner in the US led global economic transition counter to China and stopping purchases of discounted Russian oil, which had been a major diplomatic friction point.

Challenges

- One of the most criticised points of the deal is India's commitment to reducing barriers for US Agriculture products like dairy and soy products which have sparked domestic political debate, as opening these markets could impact the livelihoods of millions of Indian farmers.
- President Trump has indicated that India will move toward Zero-Tariffs on American goods. Implementing this without hurting local "Make in India" manufacturing will be a delicate balancing act for India.
- Indian opposition leaders have raised the issue of transparency regarding the "quid pro quo" elements of the deal, particularly the \$500 billion purchase commitment and how it affects India's fiscal discipline.
- Sustainability of the deal, historically, trade agreements under the current U.S. administration have been subject to rapid changes based on evolving geopolitical conditions, leading to concerns about the long-term stability of the 18% rate.

Impact of India–US Trade Deal

A recent India–US trade agreement reduced tariffs (e.g., from 50% to 18% on numerous Indian exports) — a move widely seen as boosting FDI, lowering risk perceptions, and strengthening investment confidence.

The deal is expected to stimulate American and global capital flows into India — particularly in exports, manufacturing, and tech services.

- Analysts anticipate that such policy stability frames India as a “China + 1” investment destination, appealing to US corporations diversifying supply chains. Growth in US FDI Inflows to India.
- In the first half of FY26, FDI inflows from the United States nearly tripled, making the US one of the top contributing countries.
- Historically, the US accounted for about 17% of India’s FDI sources, indicating its continued prominence.

Policy Analysis

Indian Policy Initiatives Attracting FDI

- Liberalization of sectoral FDI caps (e.g., insurance, telecom).
- Special Economic Zones (SEZs) and production-linked incentive (PLI) schemes to enhance manufacturing attractiveness.

US Strategic Economic Acts

While CHIPS and Science Act focuses mainly on domestic semiconductor competitiveness, it also includes international partnerships in tech and semiconductor fabrication — including collaborative investments in India.

Even when a trade deal looks “win-win,” there are real risks and costs for India, especially with a powerful economy like the US.

Negative aspect after Deal

1. Pressure on Domestic Industries

US companies are highly competitive, capital-rich, and technologically advanced. After a trade deal in way Indian MSMEs, farmers, and small manufacturers may struggle, Sectors like dairy, agriculture, medical devices, and retail face tough competition Risk of market domination by US multinationals **.It may increase the Unemployment.**

2. Trade Deficit May Increase

India already imports more high-value goods from the US than it exports it Increased imports of defence equipment, aircraft, technology, medical devices, Indian exports (textiles, agriculture, generic drugs) face strict US standards . It may Widening trade deficit and pressure on foreign exchange reserves.

3. Impact on Farmers & Agriculture

US push hard for Market access for genetically modified crops Reduction of agricultural subsidies given by India Opening dairy sector (against India’s small farmers’ interest).It may Income insecurity for small farmers and Threat to food security and traditional farming.

4. Loss of Policy Autonomy

Trade agreements often demand of Changes in price controls (especially medicines), stronger patent and IPR laws, Reduced government intervention. India may lose flexibility in making policies for public welfare, health, and education.

5. Higher Cost of Medicines

The US pharmaceutical lobby pushes for Extended patent protection & Restrictions on generic medicines. It may Increase in medicine prices and Damage to India's role as the "pharmacy of the developing world.

6. Data & Digital Economy Risks

US companies seek for Free cross-border data flow and Opposition to data localisation laws. It may weaken of data sovereignty and Greater control of Indian digital markets by US tech giants.

7. Unequal Bargaining Power

The US often uses Tariff threats & Sanctions or withdrawal of trade benefits. India may have to accept unfavourable terms due to power imbalance.

Positive Effects

1. Job Creation:-

Foreign investments stimulate employment generation across multiple sectors such as manufacturing, services, logistics, and technology. Both direct jobs (in foreign-funded enterprises) and indirect jobs (through suppliers, vendors, and support services) are created, helping reduce unemployment and underemployment.

2. Human Capital Development:-

Multinational corporations invest in training, skill development, and managerial expertise, improving workforce productivity. Exposure to global work practices enhances employee competence, adaptability, and long-term career growth.

3. Technology Transfer:-

FDI facilitates the transfer of advanced technology, production techniques, and management systems from developed economies to host countries. This improves industrial efficiency, product quality, and competitiveness of domestic firms.

4. Innovation Clustering:-

Foreign firms often create innovation ecosystems by clustering with local startups, research institutions, and suppliers. Such clusters encourage knowledge sharing, R&D activities, and entrepreneurial development, especially in sectors like IT, electronics, and renewable energy.

5. Enhanced Global Supply Chain Integration:-

FDI strengthens integration into global value chains, enabling domestic firms to access international markets, reduce production costs, and meet global quality standards. This enhances export potential and trade competitiveness.

Major Challenges-

1. Uneven Regional Distribution of Investments

Foreign investments are often concentrated in urban and industrialized regions, leading to regional imbalances. Backward and rural areas may remain underdeveloped, widening economic disparities.

2. Competition with Other Emerging Economies

Countries such as Vietnam, Indonesia, and Bangladesh offer lower costs and faster regulatory approvals, increasing competition for global investments. India must continuously improve its ease of doing business to remain attractive.

3. Need for Improved Regulatory Certainty and Infrastructure

Frequent policy changes, complex compliance requirements, and inadequate infrastructure (transport, power, and logistics) can discourage long-term investment. Stable regulations and robust infrastructure are essential for sustained investor confidence.

Conclusion

The India–US economic relationship is transitioning from trade-centric to investment-centric, underpinned by policy shifts, bilateral agreements, and robust private sector participation. FDI especially from the US is expected to flow into high-tech, digital services, infrastructure, and export-oriented industries. Continued policy support and regulatory clarity are crucial to sustaining this trajectory.

Finally, India will also be concerned about the more transactional model of the relationship that the US under Trump seeks with India. Many of the claims made by Trump in his trade deal announcement - India saying no to Russian oil, agreeing to buy energy and other products worth \$ 500 billion from the US, zero tariff on American products -have not yet been officially confirmed by the Indian government, suggesting there might be a devil in the details. India will hope that some of Trump's claims are just political signalling, not an ultimatum for a return of volatility to ties should India fail to meet the demands put forth.

While an American trade deal can bring investment, technology, and strategic cooperation, India may bear losses in terms of Domestic industry protection Farmer welfare Public health affordability Economic and policy sovereignty.

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