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Policy reforms, market drivers, and risk mitigation in Indian agribusiness FDI

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ABSTRACT

Foreign Direct Investment (FDI) has become a significant instrument for strengthening India's agribusiness value chain, yet the effectiveness of such investment depends heavily on the underlying policy architecture and market conditions that shape investor decisions. This paper examines the key FDI policies and market drivers influencing investment in India's agribusiness sector and proposes measures for maximizing its benefits while minimizing associated risks. The analysis draws on India's FDI policy evolution — including the 100 percent automatic-route liberalization for food processing, the 51 percent Government-route cap with mandatory back-end infrastructure investment under Multi-Brand Retail Trading (MBRT), and the ₹10,900 crore Production Linked Incentive Scheme for Food Processing Industry (PLISFPI) — alongside market-side drivers such as India's expanding consumer base, rising demand for value-added food products, raw-material availability, and export potential. The paper also draws on sectoral FDI data (2016–2025) to illustrate the practical stakes of these policy choices, noting pronounced concentration in food processing and substantial year-to-year volatility across subsectors. Based on this analysis, the paper recommends targeted extension of PLI-style incentives to under-penetrated processing segments, blended-finance mechanisms to de-risk cold-chain infrastructure investment beyond MBRT's threshold, preservation of MBRT's farmer- and MSME-protection safeguards, and investment-promotion outreach to diversify FDI across currently underinvested subsectors such as fertilizers, tea and coffee, and sugar. The findings offer a policy-relevant framework for aligning India's agribusiness FDI strategy with broader value-chain development goals.

Keywords: FDI Policy, Agribusiness, Investment Risk, Market Drivers, India

1. Introduction

Foreign Direct Investment (FDI) is widely recognized as a mechanism for transferring capital, technology, and managerial expertise into developing economies (World Bank, 2018) [1]. In India's agribusiness sector, the effectiveness of FDI in generating these benefits depends not merely on the volume of investment attracted, but on the policy architecture governing entry conditions and the market conditions that make specific subsectors attractive to foreign investors in the first place. Understanding these drivers - and the risks that accompany them - is therefore a necessary complement to any study of FDI trends or sectoral distribution.

India's FDI policy for agribusiness-related activities has evolved substantially since the early 2000s. The Planning Commission of India (2002) [2], in its Report of the Steering Group on Foreign Direct Investment, identified regulatory complexity, procedural delays, and infrastructure gaps as key constraints on India's investment climate, recommending sectoral liberalization and stronger investment-facilitation systems. Subsequent reforms followed this direction: food processing was progressively opened to 100 percent FDI through the automatic route (DPIIT, 2020) [3], while Multi-Brand Retail Trading (MBRT) was opened to 51 percent foreign investment under the Government route in 2011–2012, with a mandatory back-end infrastructure investment requirement directly tied to agricultural supply chains (DPIIT FDI Policy Circulars, 2016 and 2020, as cited in Lok Sabha reply dated 11 February 2025) [4]. More recently, the Production Linked Incentive Scheme for Food Processing Industry (PLISFPI), approved in 2021 with an outlay of ₹10,900 crore, has emerged as what this study identifies as the single most significant sector-specific investment driver of the study period (MoFPI/PLISFPI scheme documents, 2021) [5].

Alongside policy liberalization, a distinct set of market-side factors shapes investor decisions. India's consumer market, projected to grow to approximately 773 million people with meaningful discretionary spending by 2030 (Brickwork Ratings, 2025), and a food processing market projected to reach USD 535 billion by 2025–26 at a CAGR of roughly 15.2 percent (Invest India, 2026), create sustained demand for value-added food products. Agricultural raw-material availability, export potential, and — paradoxically — India's comparatively low processing penetration all function as investment opportunities rather than merely constraints (FAO, as cited in study synthesis). At the same time, the World Bank (2014) [6] has cautioned that large-

scale agricultural investment can adversely affect smallholders where land rights and community interests are not adequately protected, underscoring that policy and market drivers cannot be assessed in isolation from the risks they carry.

Accordingly, this paper examines two related questions: first, what are the key FDI policies and market drivers shaping investment in Indian agribusiness (Objective 3); and second, what measures can maximize the benefits of this investment while minimizing its risks, particularly investment volatility, sectoral concentration, and smallholder displacement (Objective 4)? The analysis draws on India's FDI policy circulars, government scheme documentation, and market data to develop policy-relevant recommendations for a more balanced and resilient agribusiness FDI environment.

1. Objectives of the Study

The study was undertaken with the following objectives:

1. To identify and examine the key FDI policies and market drivers influencing FDI inflows into the Indian agribusiness sector.
2. To suggest suitable measures for maximizing the benefits and minimizing the potential risks of FDI in Indian agribusiness.

2. Research material & methods

2.1 Research design

This paper adopts a descriptive-analytical research design suited to policy and driver analysis rather than statistical hypothesis testing. The descriptive component documents India's FDI policy framework and identifies market-side drivers relevant to agribusiness investment; the analytical component examines the relationship between these policy and market factors and observed patterns of FDI concentration and volatility, using this relationship as the basis for the paper's recommendations.

2.2 Data sources

The paper draws on secondary sources across three categories: Policy documents: DPIIT FDI Policy Circulars (2016 and 2020) [3], the Consolidated FDI Policy framework (DPIIT, 2020) [3], and the Lok Sabha reply dated 11 February 2025 on FDI policy implementation.

Scheme and institutional documents: Cabinet approval and guideline documents for the Production Linked Incentive Scheme for Food Processing Industry (PLISFPI, approved 31 March 2021; guidelines issued 2 May 2021) [5, 7], along with publications from NITI Aayog (2018, 2024), the Ministry of Food Processing Industries (2025) [8], and the Reserve Bank of India (2019) [9], used to identify government schemes and infrastructure initiatives supporting agribusiness investment.

Market and institutional data: Market-size and demand projections from Invest India (2026) and Brickwork Ratings (2025), and empirical FDI data from DPIIT (2026) [10] for 2016–2025, used to substantiate market drivers and to illustrate the practical consequences of the policy environment described above (sectoral concentration and volatility).

2.3 Analytical framework

Policy instruments and market drivers were classified thematically along two dimensions:

Policy dimension: categorized by investment route (automatic vs. government), equity cap, and attached conditions (e.g., minimum investment thresholds, back-end infrastructure requirements, sourcing conditions), following the classification structure used in DPIIT's own sector-wise FDI policy documentation.

Market dimension: categorized by driver type (demand-side, e.g., rising consumer demand for processed food; supply-side, e.g., raw-material availability; and enabling, e.g., infrastructure and technology), consistent with the driver categories identified in the reviewed literature (NITI Aayog, 2018, 2024; RBI, 2019) [11].

The paper then examines these classifications against the sectoral concentration and volatility patterns identified in the 2016–2025 FDI data (DPIIT, 2026) [10] — specifically, the finding that Food Processing Industries accounted for 64.45 percent of average agribusiness FDI while several subsectors showed coefficients of variation exceeding 100 percent — to assess which policy and market factors plausibly explain these patterns, and where policy adjustment could address them.

2.4 Scope and limitations

This paper is qualitative-descriptive in nature and does not apply inferential statistical testing to the policy or driver analysis; statistical testing of sectoral distribution is addressed in a companion empirical paper covering FDI trend and sectoral concentration. Market driver projections (e.g., consumer market size, food processing market value) are drawn from third-party institutional estimates (Brickwork Ratings, 2025; Invest India, 2026) and should be interpreted as directional indicators rather than precise forecasts.

3. Results and discussion: FDI policies and market drivers (Objective 3)

3.1 Policy reform timeline

India's FDI policy for agribusiness-linked activities has evolved through a series of targeted reforms rather than a single liberalization event (DPIIT FDI Policy Circulars 2016 and 2020; MoFPI/PLISFPI scheme documents; Lok Sabha reply dated 11 February 2025):

Table 1. Major FDI Policy Reform Timeline

Year	Policy Event	Relevance to Agribusiness FDI
2011–2012	Cabinet approval (24 Nov 2011) and subsequent formal notification (Sept 2012) of 51% FDI in Multi-Brand Retail Trading	First formal opening of MBRT to foreign investment, directly linked to back-end agri-infrastructure investment mandates.
2016	Consolidated FDI Policy Circular of 2016 (7 June 2016) reaffirms/clarifies 100% automatic route for food processing; retail trading of food products (incl. e-commerce) opened to 100% FDI under government route	Directly targets the Food Processing Industries sub-sector; coincides with the FY2015-16–FY2017-18 rise visible in the Parliament-sourced Food Processing series.
2018	DPIT circular (20 June 2018) clarifies Food Product Retail Trading (FPRT) provisions.	Removes ambiguity for foreign food retailers, supporting continued inflows into food product marketing infrastructure.
2020	Consolidated FDI Policy Circular effective 15 October 2020; SEZ sourcing clarification for Single Brand Retail (27 Feb 2020)	Broadens what counts toward local-sourcing compliance, easing entry for foreign retailers handling processed agri-products.
2021	Production Linked Incentive Scheme for Food Processing Industry (PLISFPI) approved by Cabinet, 31 March 2021; outlay ₹10,900 crore; guidelines issued 2 May 2021	The single most significant sector-specific investment driver in the study period — targets Ready-to-Cook/Ready-to-Eat, Processed Fruits & Vegetables, Marine Products, and Mozzarella Cheese segments; scheme runs FY2021-22 to FY2026-27.
2021 onward	Agriculture Infrastructure Fund (AIF), Pradhan Mantri Kisan SAMPADA Yojana (PMKSY), Pradhan Mantri Formalisation of Micro Food Processing Enterprises (PMFME), Pradhan Mantri Matsya Sampada Yojana (PMMSY) — ongoing/expanded	Complementary infrastructure and formalisation schemes that reduce post-harvest losses and build investable capacity, indirectly supporting FDI absorption in Food Processing and Agriculture Services.
2023–2025	Continued liberalisation in adjacent sectors (defence, insurance, telecom) improves India's aggregate FDI narrative; over 90% of India's total FDI now flows through the automatic route (per Lok Sabha reply, Feb 2025)	General investment-climate improvement rather than agribusiness-specific, but relevant context for the aggregate FDI trend used in Objective 1.

Source: DPIT FDI Policy Circulars 2016 and 2020; MoFPI/PLISFPI scheme documents; Lok Sabha reply dated 11 February 2025.

3.2 Sector-wise policy provisions

Table 2. Sector Wise entry route and sectoral cap.

Sector / Activity	FDI % Cap	Entry Route	Key Conditions
Agriculture (incl. Agriculture Services, floriculture, horticulture, seed development, animal husbandry)	100	Automatic Route	FDI Policy; no prior government approval needed for qualifying agricultural activities.
Plantation Sector (tea, coffee, rubber, cardamom, palm oil, olive oil)	100	Automatic Route	covers plantation-stage cultivation distinct from processing/warehousing activity.
Food Processing Industries (manufacturing)	100	Automatic Route	Applies to manufacturing/processing of food products; no separate FDI cap sub-category exists for fertilizers, agricultural machinery, sugar, or vegetable oil processing — these fall under general Manufacturing also 100% automatic.
Food Product Retail Trading (incl. e-commerce)	100	Government Approval Route	Restricted to retail trading of food products manufactured/produced in India clarified via DPIIT circular dated 20.06.2018.
Multi-Brand Retail Trading (MBRT) — relevant where agri-produce reaches retail via foreign multi-brand chains	51	Government Approval Route	Minimum USD 100 million investment; ≥50% of first tranche into back-end infrastructure (incl. cold chain, warehousing, agri-market infrastructure) within 3 years; ≥30% sourcing from Indian MSMEs; state-by-state adoption; e-commerce prohibited under MBRT.
Single Brand Retail Trading (SBRT)	100	Automatic Route	30% local sourcing mandatory only where foreign holding exceeds 51%; sourcing from SEZ units counts toward this requirement (clarified 27.02.2020).

Source: DPIIT Consolidated FDI Policy Circular (as amended, effective from 15 October 2020) [3]

Food processing is permitted up to 100 percent FDI through the automatic route (DPIIT, 2020) [3] - the most liberal treatment available under Indian FDI policy. Multi-Brand Retail Trading, by contrast, remains capped at 51 percent under the Government approval route, subject to a minimum USD 100 million investment, a requirement that at least 50 percent of the first tranche be directed to back-end infrastructure (including cold chain, warehousing, and agri-market infrastructure) within three years, and a minimum 30 percent sourcing requirement from Indian MSMEs. This differential treatment is significant: MBRT is the policy route most directly tied to *mandatory* agricultural infrastructure investment, yet its restrictive conditions relative to food processing's automatic route make it structurally harder for foreign entrants to use.

3.3 Government schemes supporting investment

Beyond entry-route policy, several government schemes actively shape investment attractiveness. The PLISFPI, with its ₹10,900 crore outlay, incentivizes incremental sales in RTC/RTE foods, processed fruits and vegetables, marine products, and mozzarella cheese, with committed investment reported at over ₹9,700 crore as of the scheme's most recent public update. The Pradhan Mantri Kisan SAMPADA Yojana and the Agriculture Infrastructure Fund provide complementary support for processing and storage infrastructure, while the Pradhan Mantri Formalisation of Micro Food Processing Enterprises (PMFME) scheme supports domestic value-chain formalization that indirectly improves the investment environment for larger foreign entrants by strengthening upstream supply reliability.

3.4 Market drivers

Alongside policy, several market-side factors shape investor decisions (synthesized from NITI Aayog, 2018, 2024; RBI, 2019; Brickwork Ratings, 2025; Invest India, 2026) [11, 9]

India's consumer market — defined as the population with meaningful discretionary spending capacity is projected to grow to approximately 773 million people by 2030, a 46 percent increase over 2024 levels (Brickwork Ratings, 2025), while the food processing market itself is projected to reach approximately USD 535 billion by 2025–26, growing at a CAGR of roughly 15.2 percent (Invest India, 2026). These projections help explain why food processing has attracted dis-

proportionate investor attention relative to other agribusiness subsectors.

Table 3. Major Market Drivers of Agribusiness FDI

Sr. No	Driver	Mechanism influencing investment
1	Large domestic market	Creates demand for food and agribusiness products
2	Rising demand for processed food	Encourages investment in processing and value addition
3	Agricultural raw-material base	Provides input availability for processing industries
4	Urbanization and changing lifestyles	Increases demand for convenience and packaged foods
5	Export opportunities	Encourages investment in internationally competitive production
6	Infrastructure development	Reduces logistics and supply-chain constraints
7	Technology availability	Improves productivity, quality and efficiency
	Cold-chain development	Reduces losses and supports perishables
8	Digitalization	Improves traceability, procurement and market connectivity
9	Government support	Reduces investment barriers and improves project viability

3.5 Linking policy and market drivers to empirical outcomes

The practical stakes of this policy and market environment are visible in the 2016–2025 sectoral FDI data (DPIIT, 2026) [10]. Food Processing Industries — the subsector benefiting from both the most liberal policy treatment (100% automatic route) and the strongest market drivers described above — accounted for 64.45 percent of average agribusiness FDI across the seven subsectors studied. By contrast, subsectors such as Fertilizers, Tea & Coffee, and Sugar, which share the *same* liberal automatic-route treatment but lack comparable

market-driver visibility, together accounted for only about 3.2 percent of average inflows. This indicates that regulatory liberalization alone is not sufficient to attract investment — market attractiveness and investor visibility matter independently of policy permissiveness.

Volatility patterns tell a related story:

Table 4. Sectoral Volatility in Agribusiness FDI (2016–2025)

Sector	CV (%)
Agricultural Machinery	230.6
Vegetable Oils & Vanaspati	164.2
Sugar	142.6
Agriculture Services	118.7
Fertilizers	118.1
Tea & Coffee	113.6
Food Processing Industries	75.6

Source: Researcher's calculation based on the validated DPIIT (2026) [10] dataset.

Even the dominant subsector, Food Processing, carries a CV of over 75 percent, while Agricultural Machinery's volatility — driven substantially by a single large USD 993.87 million inflow in 2022 — exceeds 230 percent. This suggests that FDI in Indian agribusiness is shaped as much by episodic, large-transaction dynamics as by steady policy- or market-driven investment flows, a pattern with direct implications for how policy should be designed (Section 5).

4. Recommendations: Maximizing benefits and minimizing risks of agribusiness FDI (Objective 4)

The recommendations below are derived directly from the policy and market-driver findings of Section 4, combined with the empirical concentration and volatility evidence, rather than presented as general FDI-policy suggestions.

4.1 Measures for maximizing benefits

4.1.1 Extend PLI-style incentives to under-penetrated processing segments

The PLISFPI emerged in Section 4 as the most significant sector-specific investment-support measure of the study period, with an outlay of ₹10,900 crore targeting RTC/RTE foods, processed fruits and vegetables, marine products, and mozzarella cheese (MoFPI/PLISFPI scheme documents, 2021) [5]. Given that Food Processing Industries already recorded the highest average FDI share (64.45%) among the subsectors studied, the recommendation here is not to broaden incentives across the entire sector indiscriminately, but to design future PLI-style interventions more selectively — targeting processing segments where India's agricultural production advantage has not yet translated into adequate processing capacity.

4.1.2 Prioritize cold-chain and post-harvest infrastructure via blended finance

Post-harvest losses remain substantial: a NABCONS study commissioned by the Ministry of Food Processing Industries estimated losses of 6.02–15.05 percent for fruits and 4.87–11.61 percent for vegetables. Since MBRT — the route most directly tied to mandatory back-end infrastructure investment — remains constrained by its 51 percent cap and USD 100 million threshold, infrastructure investment should not depend on MBRT alone. Expanding blended-finance models, such as Agriculture Infrastructure Fund co-investment alongside FDI rather than FDI as the sole capital source (World Bank, 2018) [1], can de-risk cold-chain projects sufficiently to attract investors who would not independently clear the MBRT threshold.

4.1.3 Diversify the sectoral investment base

Food Processing's 64.45 percent share, followed by Agriculture Services (14.90%) and Agricultural Machinery (9.35%), reflects considerable concentration. This does not imply that food-processing in-

vestment should be curtailed; rather, the objective should be to expand the overall agribusiness investment base. This concentration mirrors patterns documented in the broader FDI literature on emerging markets: Banga (2021), as reviewed in Singh *et al.* (2025), stresses the need for diversified FDI strategies to protect against sectoral concentration risk, while Doytch and Ashraf (2021), also reviewed in Singh *et al.* (2025), find that FDI's growth benefits in emerging markets are strongest where inflows are not narrowly concentrated. Since Fertilizers, Tea & Coffee, and Sugar remain small not because of regulatory restriction — all seven subsectors share identical 100 percent automatic-route treatment — but apparently because of limited investor visibility, targeted investment-promotion outreach (e.g., via Invest India sector desks) for these underinvested subsectors is a policy lever that requires no change to FDI policy itself.

4.1.4 Pair export and employment narratives with sustained food-safety compliance

Given India's export potential and rising global demand for processed food, investment promotion messaging should be paired with consistent enforcement of food-safety standards, ensuring that export- and employment-oriented growth narratives are not undermined by compliance failures that could affect India's credibility as a sourcing destination.

4.2 Measures for minimizing risks

4.2.1 Avoid evaluating investment performance solely on annual figures

The coefficient-of-variation results (Table 3) show substantial sectoral volatility — Agricultural Machinery's CV of 230.6 percent, driven substantially by a single large 2022 transaction, is the most extreme case, but even Food Processing carries a CV above 75 percent. Because such volatility can arise from individual large transactions, acquisitions, or corporate restructuring rather than genuine shifts in investment climate, policymakers should avoid evaluating FDI performance through annual figures alone and instead track multi-year trend and distribution measures.

4.2.2 Preserve MBRT safeguards rather than dilute them

The 51 percent cap, USD 100 million minimum investment, and mandatory 30 percent MSME/farmer-cooperative sourcing requirement under MBRT exist specifically to protect domestic small retailers, farmers, and unorganized-sector employment — a deliberate policy trade-off made when the route was opened in 2012. Since further liberalization of these caps offers limited additional benefit (comparable caps are already at 100% elsewhere in the sector), the risk-minimizing recommendation is to preserve these safeguards rather than dilute them, pursuing MBRT's underlying infrastructure objective instead through the blended-finance route described in Section 5.1.2.

4.2.3 Protect smallholder interests in large-scale investment

Consistent with the World Bank's (2014) [6] finding that large-scale agricultural investment can adversely affect smallholders where land rights and community interests are inadequately protected, policy should continue to ensure that FDI-supported value chains integrate small producers as beneficiaries — through transparent contractual arrangements and farmer/FPO participation — rather than displacing them.

4.3 Major findings

1. India's FDI policy for agribusiness-linked activities is not uniform but differentiated by subsector — Food Processing Industries receives the most liberal treatment available (100% automatic route), while Multi-Brand Retail Trading (MBRT) remains capped at 51% under the Government route, subject to a USD 100 million minimum investment and mandatory back-end infrastructure conditions.

2. MBRT is the policy route most directly tied to mandatory agricultural infrastructure investment (cold chain, warehousing, agri-market infrastructure), yet its comparatively restrictive entry conditions make it structurally harder for foreign entrants to use than the automatic-route food processing pathway.
3. The Production Linked Incentive Scheme for Food Processing Industry (PLISFPI), approved in 2021 with an outlay of ₹10,900 crore, emerged as the single most significant sector-specific investment driver of the study period, targeting RTC/RTE foods, processed fruits and vegetables, marine products, and mozzarella cheese.
4. Over 90 percent of India's total FDI now flows through the automatic route ([Lok Sabha reply, 11 February 2025](#))^[4], reflecting a broader investment-climate liberalization that provides context for, but is not specific to, agribusiness.
5. Regulatory liberalization alone does not explain investment outcomes: Fertilizers, Tea & Coffee, and Sugar share the same 100 percent automatic-route treatment as Food Processing Industries, yet together attracted only about 3.2 percent of average agribusiness FDI — indicating that market visibility and investor attractiveness operate as constraints independent of policy permissiveness.
6. PLI-style incentives should be extended selectively to under-penetrated processing segments rather than broadened indiscriminately across an already-concentrated sector.
7. Blended-finance mechanisms (e.g., Agriculture Infrastructure Fund co-investment alongside FDI) can address cold-chain and post-harvest infrastructure gaps without depending solely on MBRT, whose 51% cap and investment threshold limit its practical reach.
8. MBRT's farmer- and MSME-protection safeguards (51% cap, sourcing conditions) should be preserved rather than diluted, as they represent a deliberate policy trade-off rather than an investment barrier to be removed.

5. Conclusion

This paper examined the key policy and market drivers shaping Foreign Direct Investment (FDI) in India's agribusiness sector and proposed measures for maximizing its benefits while minimizing associated risks. The analysis shows that India's FDI policy environment for agribusiness is not uniform but differentiated: food processing benefits from the most liberal treatment available under Indian FDI policy (100 percent automatic route), while Multi-Brand Retail Trading — the route most directly tied to mandatory back-end infrastructure investment — remains comparatively restrictive, capped at 51 percent under the Government route with a USD 100 million minimum investment threshold. Government schemes, particularly the ₹10,900 crore Production Linked Incentive Scheme for Food Processing Industry, have reinforced this differential by concentrating targeted incentives in already-favored segments.

Market-side drivers — India's expanding consumer base, projected to reach 773 million people with meaningful discretionary spending by 2030, and a food processing market projected to grow at a CAGR of approximately 15.2 percent — help explain why food processing has attracted disproportionate investor attention. However, the finding that Fertilizers, Tea & Coffee, and Sugar attract minimal investment despite sharing identical 100 percent automatic-route treatment demonstrates that policy liberalization alone is insufficient; investor visibility and market attractiveness operate as independent constraints that policy must address directly rather than assume will resolve through further deregulation.

The volatility evidence reinforces this picture: even the dominant food-processing subsector shows a coefficient of variation exceeding 75 percent, while less-visible subsectors such as Agricultural

Machinery exceed 230 percent, driven substantially by episodic large transactions rather than steady investment flows. This indicates that India's agribusiness FDI landscape is shaped as much by transaction-level dynamics as by systematic policy or market forces a distinction with direct implications for how both investment promotion and risk management should be designed.

Accordingly, this paper recommends a two-track approach: on the benefits side, selectively extending PLI-style incentives to under-penetrated processing segments, deploying blended finance to fund cold-chain infrastructure beyond MBRT's investment threshold, and pursuing targeted investment-promotion outreach to diversify the sectoral base; on the risk side, preserving MBRT's farmer- and MSME-protection safeguards rather than diluting them, evaluating FDI performance using multi-year rather than annual measures, and ensuring small-holder inclusion in FDI-supported value chains. Taken together, these measures suggest that maximizing the developmental value of agribusiness FDI in India depends less on attracting a larger volume of investment and more on distributing that investment more deliberately across the value chain it is meant to strengthen.

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